

## Safeguards—Remaining Issues and Task Force Proposals

### How the Project Serves the Public Interest

Approved in January 2015, this two-phased project addresses the clarity, appropriateness and effectiveness of safeguards in the extant Code. Drafted in accordance with the new structure and drafting conventions established by Phase 1 of the Structure of the Code (Structure) project, the enhancements resulting from the Safeguards project will better 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.

- Phase 1 of the project establishes an enhanced and more robust conceptual framework with more explicit requirements and application material to explain how to identify, evaluate and address threats to compliance with the fundamental principles and threats to independence (i.e., proposed Sections 120<sup>1</sup> and 300<sup>2</sup>).
- Phase 2 also deals with conforming amendments to the provisions in the other sections of the Code relating to the application of the enhanced conceptual framework, including to non-assurance services (NAS) provisions in Sections 290 and 291 of the extant Code.

### Background

1. At its September 2017 meeting, the IESBA further deliberated significant comments on the Exposure Draft (ED of Phase 2 of the project, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments](#) (Safeguards ED-2), and related Task Force responses. The IESBA also was briefed on the outcome of the Task Force's July 2017 teleconferences with representatives of regulatory stakeholders who responded to Safeguards ED-2, and the IFAC Small and Medium Practices (SMP) Committee. Taking into account input from the September 2017 IESBA Consultative Advisory Group (CAG) meeting, the Board considered a first draft of the Task Force revisions to the proposed text in response of the feedback from respondents on Safeguards ED-2.
2. In preparing for this meeting the Task Force reflected on the overall objectives of the Safeguards project, including the significant comments received from respondents to the EDs on Phases 1 and 2 of the project. Certain refinements were made to the Phase 1<sup>3</sup> agreed-in-principle-text to enhance the overall readability of the Code and enhance consistency between the Phase 1 and Phase 2 text.
3. The two-phased Safeguards project sought to clarify the safeguards in the extant Code, thereby making them more effective and appropriate. The revisions to the Code as a result of the project include improvements to the conceptual framework in the extant Code, and to the provisions in the rest of the Code that are relevant to the application of the enhanced conceptual framework in specific circumstances, for example when firms provide NAS to audit and assurance clients. The revisions to

<sup>1</sup> Proposed restructured Code, Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, Section 120, *The Conceptual Framework*

<sup>2</sup> Proposed restructured Code, Part 3 – Professional Accountants in Public Practice, Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

<sup>3</sup> The Phase 1 ED, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) (Safeguards ED-1) was approved and released in December 2015 with a comment deadline of March 21, 2016.

the extant NAS provisions are set out in Sections 600 and 950.<sup>4</sup> The Task Force's proposals are drafted using the new format and drafting convention for the Code.

4. Highlights of the Safeguards project include:

- With respect to the conceptual framework and its applicability to PAs:
  - More prominent overarching requirements that apply in all stages and in all situations when applying the conceptual framework – exercising professional judgment; remaining alert for new information and to changes in facts and circumstances; and using the reasonable and informed third party test (RITP).
  - Clearer and more explicit requirements to identify, evaluate and address threats to compliance with the fundamental principles.
  - New application material to remind PAs that the provisions in the conceptual framework apply in the same way to identifying, evaluating and addressing threats to independence.
  - New and enhanced description of key terms, including acceptable level, reasonable and informed third party and safeguards.
  - Clarification about how PAs should factor in conditions, policies and procedures that are established by the profession, legislation, regulation, the firm, or the employing organization that can enhance PAs acting ethically. The proposed text clarifies that these conditions, policies and procedures are not safeguards, but rather are factors that might be relevant in a PA's evaluation of the level of a threat.
  - New application material explaining that in some circumstances threats cannot be addressed by applying safeguards and cannot be eliminated, and that in such circumstances the threat can only be addressed by declining or ending the professional activity.
- With respect to the NAS section of the Code:
  - Increased prominence of the requirement that prohibits firms from assuming a management responsibility when providing a NAS to an audit client.
  - New application material for evaluating and addressing threats in relation to NAS.
  - Revised examples of actions that might be safeguards to address threats, and actions that might eliminate the circumstances creating the threats.
  - Expanded requirement that prohibits providing certain specific types of recruiting services to audit clients with respect to directors or officers, or members of senior management in a position to exert significant influence over the preparation of the client's accounting records, or the financial statements on which the firm will express an opinion. The prohibition in the extant Code is for audits of public interest entities. The proposed text is

---

<sup>4</sup> Proposed restructured Code, International Independence Standards, Part 4A – Independence for Audit and Review Engagements, Section 600, *Provision of Non-assurance Services to an Audit Client* and Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements, Section 950, *Provision of Non-assurance Services to an Assurance Client*

applicable to all entities.

## **Matters Presented in this Paper**

5. The remainder of this paper is organized as follows:

- I. Revisions to address specific matters raised by IESBA members.
  - Recap of September 2017 IESBA meeting discussions;
  - Determination of whether an action is a safeguard;
  - Provisions relating to advocacy threats;
  - Refinements to examples of actions that might address threats, including description of “appropriate reviewer;” and
  - Safeguards-related consistency revisions.
- II. Non-substantive revisions that are beyond editorial in nature.
- III. Other matters.
- IV. Due process matters.

## **I. Revisions to Address Specific Matters Raised by IESBA Members**

### **Recap of September 2017 IESBA Meeting Discussions**

6. The IESBA broadly supported the direction of the Task Force’s [September 2017](#) proposals, but asked that the Task Force:
  - Consider adding more guidance to explain how a PA determines that an action is effective and appropriate in reducing a threat to an acceptable level, and therefore qualify as a safeguard;
  - Determine whether further guidance is needed in relation to evaluating and addressing advocacy threats; and
  - Revisit each example of actions that might be safeguards in the Code to ensure that they are appropriate to addressing the specific threats identified.
7. The IESBA also asked that the Task Force work closely with the Structure Task Force to incorporate revisions arising from its consistency review.

### **Determination of Whether an Action is a Safeguard**

8. The Task Force was asked to revisit respondents’ comments and questions relating to how PAs determine the appropriateness of actions taken to reduce threats to an acceptable level (i.e., safeguards).

### *Task Force Response*

9. The Task Force believes that the proper application of the enhanced provisions in the conceptual framework is critical to ensuring that threats to compliance with the fundamental principles that are not at an acceptable level are appropriately addressed. Therefore paragraph 120.10 A3 which was

presented to the Board during the September 2017 in the “turnaround draft” of the proposed text is deleted.

10. The Task Force believes that the enhanced conceptual framework makes it clear that applying safeguards is only one of three ways to address threats. Paragraph R120.10 notes that threats can be addressed by:
  - Eliminating the circumstance creating the threat;
  - Applying safeguards, where available and capable of being applied to reduce the threat to an acceptable level; or
  - Declining or ending the specific professional activity.
11. The enhanced conceptual framework specifies that the specific facts and circumstances, including the nature of the professional activity, interests and relationships is relevant to a PA’s determination of whether an action might reduce a threat to an acceptable level, and therefore be a safeguard. The proposed text includes general and context-specific examples of factors to guide a PA’s evaluation of the level of threat as follows:
  - To be applied in all situations in paragraphs 120.8 A1 to 120.8 A3 under a new subheading titled “factors relevant to evaluating the level of threats.” Since the September 2017 draft, new application material has been added for evaluating threats in Section 120. Some respondents to Safeguards ED-2 noted that discussions and consultations with others are not safeguards under the enhanced conceptual framework and questioned its role. In response, the Task Force added 120.8 A3 to explain that discussions and consultations with others assist PAs understand the factors that are relevant in evaluating the level of threats.
  - Incremental application material for evaluating threats is provided for PAIBs in paragraphs 200.7 A1 to 200.7 A3 and for PAPPs in paragraphs 300.7 A1 to 300.7 A1.
  - Incremental context-specific factors are included in each section of Parts 2, 3, 4A and 4B of the Code to emphasize the factors that are relevant to evaluating the level of the threat created by the specific circumstance. For instance, in relation to threats created by providing NAS to audit clients, paragraphs 600.5 A1 to 600.5 A4 include examples of factors that are relevant to all types of NAS services that might be provided. Additionally, within each subsection of Section 600, as appropriate, there are additional examples of factors that also apply based on the specific type of NAS.
12. From a practical perspective, it is expected that PAs would apply the provisions for evaluating threats in an iterative way. For example, the factors that are relevant to evaluating threats would likely be applied:
  - When a threat is identified to determine whether it is at an acceptable level. No further action would be taken for threats that are at an acceptable level.
  - To determine whether an action taken by the PA was effective in reducing the threat to an acceptable level, and therefore a safeguard.
13. Regarding the examples of actions that *might* [emphasis added] be safeguards in the proposed text, the Task Force believes that in most situations where the facts and circumstances are similar to those

described in the Code, such actions would be effective in reducing threats to an acceptable level and would therefore be a safeguard. However, the list of examples in the Cod is not all-inclusive, and the examples of safeguards included therein are not guaranteed to be safeguards in all situations.

14. The Task Force believes that proper application of the enhanced conceptual framework requires PAs to think about the specific facts and circumstances creating the threats to determine whether an “action(s) taken to address them are, individually or in combination, effective in reducing such threats to an acceptable level.”<sup>5</sup> If an action is not effective in reducing a threat to an acceptable level, such action is not a safeguard.
15. The Task Force also believes that the proper application of the enhanced conceptual framework will require a change in mindset in how PAs, firms and others interpret and apply the provisions in the Code. The revisions are an improvement to what has been characterized as a “threats and safeguards” approach whereby applying a safeguard automatically addressed a threat. To help emphasize and prompt the need for PAs’ thinking in applying the enhanced conceptual framework, the overarching requirements are now more prominent. It is also much clearer that in all three stages of the conceptual framework— i.e., in identifying, evaluating and addressing threats, PAs are required to:<sup>6</sup>
  - Exercise professional judgment, based on an understanding of known facts and circumstances;
  - Remain alert for new information and to changes in facts and circumstances; and
  - Use the RITP test.
16. Further, as part of addressing threats, PAs are required to form an overall conclusion about whether the actions that the PA takes, or intends to take, are appropriate to address the threats created. This means that when an action that might be a safeguard is applied, the PA is required to review any significant judgments made or conclusions reached; and to use the RITP test<sup>7</sup> to determine whether such action is effective in reducing the threat to an acceptable level. The proposed text explains that an acceptable level is the level at which a PA, using the RITP test, would likely conclude that the PA complies with the fundamental principles.<sup>8</sup>

### **Provisions Relating to Advocacy Threats**

17. The Task Force reflected on and considered how best to respond to an IESBA member’s suggestion for having additional guidance in the Code for evaluating and addressing advocacy threats, in particular in relation to NAS provisions.

#### *Task Force Response*

18. In situations in which the Task Force believes an advocacy threat is created by providing a specific type of NAS, a reference is included in each introductory paragraph. Also, application material is included with examples of factors to evaluate such advocacy threats (see subsections 603, 604, 607, and 608 relating to valuation, tax planning and other tax advisory services, tax services involving

---

<sup>5</sup> See description of safeguards in paragraph 120.10 A2.

<sup>6</sup> See overarching requirement in paragraph R120.5 and the description of RITP test in paragraph 120.5 A4

<sup>7</sup> See paragraph R120.11.

<sup>8</sup> See description of acceptable level in paragraph 120.7 A1.

valuations, assistance in the resolution of tax disputes, litigation support, legal services and corporate finance services). Examples of actions that address threats are included.

19. Similar to the other categories of threats described in the Code, the Task Force believes that the likelihood of an advocacy threat being reduced to an acceptable level depends on the facts and circumstances of the particular engagement and that in some cases, there may not be a safeguard to address the advocacy threat.
20. During the September 2017 meeting, the IESBA agreed with the Task Force suggestion to revise paragraph 600.7 A2 to indicate that assuming a management responsibility creates advocacy threats, in addition to familiarity threats because the firm or network firm becomes too closely aligned with the views and interests of management. The Task Force is of the view that the same is true in situations in which a firm loans personnel to an audit client. Accordingly, a new paragraph 525.3 A2<sup>9</sup> is added to emphasize that in some situations safeguards are not often be available and capable of addressing advocacy threats.
21. With respect to NAS provisions, the Task Force developed new application material in the general provisions of Section 600 for addressing threats (see paragraph 600.6 A1). Similar to the other general provisions in Section 600, this new application material is applicable in all circumstances in which a firm provides a NAS to an audit client and is not repeated in the subsections. Paragraph 600.6 A1:
  - Reminds readers that the subsections to Section 600 include examples of actions address threats, including those that might be safeguards and clarifies that the examples are not all inclusive.
  - Refers to the description of safeguards in paragraph 120.10 A2, and explains that providing NAS to audit clients, safeguards are actions, individually or in combination, that the firm take that effectively reduces threats to independence to an acceptable level.
  - Emphasizes that in some situations, when a threat is created by providing a NAS to an audit client, safeguards might not be available and capable of addressing such a threat and that in such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the NAS or the audit engagement.
22. The Task Force believes that paragraph 600.6 A1 provides useful context for paragraph 600.6 A2 which states that “Some of the subsections include requirements that expressly prohibit a firm or network firm from providing certain services to an audit client in certain circumstances because the threats created cannot be addressed by applying safeguards.”
23. Consistent with provisions in the extant Code, the Task Force believes that for tax planning and other tax advisory services and tax services involving valuations, obtaining pre-clearance from the tax authorities might be an example of an action to address an advocacy threat. The Task Force notes that the process for obtaining such pre-clearance vary depending on the particular jurisdiction. For example, the Task Force notes that in the United Kingdom, a firm may be actively involved in negotiating the terms of pre-clearance. In such circumstances, obtaining a pre-clearance might not be effective in addressing an advocacy threat, and therefore might not be a safeguard.

---

<sup>9</sup> Proposed restructured Code, International Independence Standards, Part 4A, Section 525, *Temporary Personnel Assignments*

## Refinements to Examples of Actions that Might Address Threats, Including Description of Appropriate Reviewer

### *Improvements of Examples of Actions that might be Safeguards*

24. A key objective of the Safeguards project is to align the examples of actions that might be Safeguards in the Code to the specific categories of threats that they are intended to address. The IESBA asked that the Task Force revisit each of the example of actions that might be safeguards to ensure that they are *appropriate* in addressing the specific threats identified based on the circumstances provided.

### Task Force Response

25. The Task Force reviewed the proposed text and determined that there is a need to refine and in some cases add examples of factors and actions that might be safeguards so that they are more appropriate to the specific threat and the situation described in the proposed text. The Task Force's revisions relate to:
- Self-interest threats created from contingency fees used for certain types of NAS (see paragraphs 330.4 A2<sup>10</sup> to 330.4 A3 for PAPPs; paragraphs 410.12 A2<sup>11</sup> to 410.12 A3 for audit and review engagements); and paragraph 905.9 A3.<sup>12</sup>
  - Self-interest or advocacy threats created when a PA pays or receives a referral fee or receives a commission in relation to a client (see paragraph 330.5 A3).
  - Self-interest threats created by long association with a client (see paragraphs 540.3 A6<sup>13</sup> or audit and review engagements and 940.3 A6<sup>14</sup> for other assurance engagements). The example of the safeguard in the last bullet is refined to clarify that the engagement quality review was tailored to deal with the specific threat described in the proposed text.
  - Self-review threats created by providing tax calculations for the purpose of preparing accounting entries (see paragraphs 604.5 A2 to 604.6 A1). The Task Force revised its proposals to clarify the provisions in the extant Code and explain that:
    - The factors that are relevant in evaluating the threat created by providing such a NAS is relevant to all entities (see paragraphs 604.5 A2).
    - The examples of actions that might be safeguards to address threats for audit clients that are non-PIEs are also applicable to audit clients that are PIEs in circumstances in which providing such a NAS is permissible – i.e., when the accounting entry relating to the tax calculation is immaterial to the financial statements on which the firm will express an opinion (see refinement to paragraph 604.5 A3 and new paragraph 604.6 A1).

---

<sup>10</sup> Proposed restructured Code, Part 3, Section 330, *Fees and Other Types of Remuneration*

<sup>11</sup> Proposed restructured Code, International Independence Standards, Part 4A, Section 410, *Fees*

<sup>12</sup> Proposed restructured Code, International Independence Standards, Part 4B, Section 905, *Fees*

<sup>13</sup> Proposed restructured Code, International Independence Standards, Part 4A, Section 540, *Long Association of Personnel (Including Partner Rotation) With an Audit Client*

<sup>14</sup> Proposed restructured Code, International Independence Standards, Part 4B, Section 940, *Long Association of Personnel With an Assurance Client*

*Description of Appropriate Reviewer*

26. During its September 2017 meeting, the IESBA generally agreed with the Task Force's proposal to add the defined term "appropriate professional" to the Code. Having this term described in the Code is intended to be respond to questions about what the characteristics and attributes of the "professional" doing a "review" as referred to in the examples of actions that might be safeguards throughout the Code.
27. Some IEBSA meeting participants questioned whether the defined term "appropriate professional" should also be used in the examples of actions that might be safeguards that involve a "...professional performing the NAS..."

*Task Force Response*

28. The Task Force reflected on the feedback received and believes the term "appropriate professional" should be changed to "appropriate reviewer" (see paragraph 300.8 A4). The Task Force believes that:
  - The term appropriate reviewer should only apply in relation to applying safeguards.
  - An appropriate reviewer is a professional, who in many instances might be a PA.
  - An appropriate reviewer would have the necessary knowledge, skills, experience and authority to review the relevant audit work or outcome of the service provided in an objective manner.
29. The Code is silent about whether an appropriate reviewer should be a PA who is an employee of the firm versus a contractor who is external to the firm. However, the Task Force acknowledges that in some circumstances, in particular, in relation to SMPs, having a PA who is external to the firm might be the only option available. The Task Force believes that when a firm contracts a PA to review NAS or audit work, the action is only a safeguard if it is effective in addressing the specific threats that are created (see the "Determination of Whether an Action is a Safeguard" section of this paper).
30. Throughout the proposed text, the term "appropriate professional" is changed to "appropriate reviewer."

**Safeguards-related Consistency Revisions**

31. Responsive to the IESBA's request, the Task Force liaised with the Structure Task Force's to undertake a consistency review of the proposed text to be included in the restructured Code.

*Task Force Response*

32. The proposed text in **Agenda Item 2-C** includes the revisions made to ensure that the proposed texts are drafted in a consistent manner. The Task Force provided input to refine the Drafting Guidelines document that summarize the new format and drafting conventions for safeguards-related revisions to the Code. **Agenda Item 2-F** is an updated draft of those Drafting Guides. The safeguards-related revisions relate to:
  - How the term "facts and circumstances" is used.
  - The introductory paragraphs in each section of the Code, including the subsections to Section 600 which refer to, and emphasize the applicability of the provisions in the CF.
  - How threats are described in the Code.



- The examples of factors relevant to evaluating threats.
  - The examples of actions to address threats.
33. In addition to several refinements aimed at ensuring the above listed matters are drafted in a consistent manner, the Task Force liaised with the Structure Task Force to develop these revisions to achieve consistency across the proposed text:

#### Part 1

- Paragraph 120.9 A1 – the words “In relation to undertaking professional activities...” are added to qualify the statement about remaining alert in the context of undertaking professional activities. Under the new format and drafting convention for the Code, the provisions in Section 120 are drafted in a general way so that it is clear that the CF applies in all situations – (i.e., to “...accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats....”<sup>15</sup>

#### Part 2

- Paragraph 200.7 A1<sup>16</sup> – The Task Force accepted the suggestion to delete the last sentence in order to be more closely aligned with the drafting approach in paragraph 300.7 A1.
- Paragraph 220.9 A1<sup>17</sup> – The Task Force liaised with the Part C Task Force to further refine the application material that supports the requirement in R220.9 so that it is more consistent with the requirement for addressing threats in paragraph R120.10.

#### International Independence Standards, Parts 4A and 4B

- Subheadings are added to sections of the proposed text with provisions relating to financial interests – other circumstances to clarify those that relate to:
  - Close family, immediate family, other individuals and retirement benefit plans of a firm or network firm in Section 510<sup>18</sup> (see paragraphs 510.10 A1 to 510.10 A13 relating to audit and review engagements).
  - Close family and other individuals in Section 910<sup>19</sup> (see paragraphs 910.8 A1 to 910.8 A7 relating to other assurance engagements).
- Paragraphs 520.6 A1<sup>20</sup> to 520.6 A2 – The Task Force agrees that in buying goods and services, “intimidation threats” might be created in an audit and assurance context and agrees to add such

---

<sup>15</sup> See paragraph 120.1.

<sup>16</sup> Proposed restructured Code, Part 2, Section 200, *Application of the Conceptual Framework – Professional Accountants in Business*

<sup>17</sup> Proposed restructured Code, Part 2, Section 220, *Preparation and Presentation of Information*

<sup>18</sup> Proposed restructured Code, International Independence Standards, Part 4A, Section 510, *Financial Interests*

<sup>19</sup> Proposed restructured Code, International Independence Standards, Part 4B, Section 910, *Financial Interests*

<sup>20</sup> Proposed restructured Code, International Independence Standards, Part 4A, Section 520, *Business Relationships*

a reference to align with the corresponding proposed text relating to other assurance engagements in paragraphs 920.5 A1<sup>21</sup> to 920.5 A2.

**Matter for IESBA Consideration**

1. Do IESBA members agree with the Task Force's revisions to the proposed text summarized in Section I of this paper?

**II. Non-substantive Revisions that are Beyond Editorial**

34. In addition to several editorial refinements made throughout the proposed texts, the Task Force is proposing the following revisions to improve its proposals:

**Part 2**

- Paragraph 200.6 A1 – In addition to the refinements made to align the drafting approach in Part 2 to the AIPT in paragraph 300.6 A1, the Task Force accepted some refinements from the Part C Task Force to improve the examples relating to self-review threats.
- Paragraphs 270.3 A4<sup>22</sup> – The Task Force liaised with the Part C and Structure Task Forces and agreed to merge and streamline the material in old paragraphs 270.3 A4 and 270.3 A5 to avoid repetition (see also addition of paragraph 120.8 A3).
- Paragraph 270.3 A5 – The Task Force liaised with the Part C and Structure Task Forces and agreed to delete the last sentence because it is superfluous.

**International Independence Standards, Parts 4A and 4B**

- Paragraph R600.9 – The Task Force accepted a drafting refinement from the Structure Task Force to explicitly include the word “shall” in a paragraph with the letter “R”.
- Paragraph R600.10 – The revision that was made inadvertently during the September 2017 meeting was reversed.
- Paragraph 920.5 A1 – A reference to “intimidation” threats has been added to be consistent with the Drafting Guidelines and to align with the material in paragraphs 920.2 and 920.5 A2.
- Paragraphs 950.5 A1 – New application material for addressing threats is added to align with new application material in the general provisions in paragraph 600.6 A1 (see discussion in the “Provisions Relating to Advocacy Threats” section of this paper).
- Paragraph R950.7 – Refinements are made including deletion of the words “... establishing appropriate policies and procedures...” to better align with the corresponding provision in the extant Code.
- Paragraph 950.7 2 – A revision is made to clarify that the prohibition for assuming management responsibility is narrower in relation to other assurance engagements versus in the provisions for audits and review engagement. The proposed text clarifies that a firm is prohibited from assuming

<sup>21</sup> Proposed restructured Code, International Independence Standards, Part 4B, Section 920, *Business Relationships*

<sup>22</sup> Proposed restructured Code, Part 2, Section 270, *Pressure to Breach the Fundamental Principles*

management responsibility as part of any other services provided to the assurance client in circumstances when that responsibility relates to the subject matter or subject matter information of the assurance engagement provided by the firm.

**Matter for IESBA Consideration**

2. Do IESBA members agree with the Task Force's revisions to the proposed text summarized in Section II of this paper?

**III. Other Matters**

*Draft Outline for Basis for Conclusions*

35. A January 2017 staff-prepared document, [Basis for Agreement in Principle for Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) (Safeguards BFAP) summarizes and explains the rationale for the IESBA's conclusions with respect to Phase 1 of the Safeguards project. Subject to the Board's approval of the proposed text, this Safeguards BFAP will be used as the starting point to develop the final Basis for Conclusion document for the Safeguards project.
36. The Task Force prepared a draft outline for developing the Basis for Conclusions (see Appendix 2 to this paper). Subject to approval of the proposed text, the Task Force proposes that the Board provide input on this outline during the meeting.

**Matter for IESBA Consideration**

3. IESBA members are asked for views about matters that should be address in the Basis for Conclusions document.

**IV. Due Process Matters**

*Significant Matters Raised by Respondents*

37. It is the Task Force's view that all significant matters raised by the respondents in the comment letters have been identified and deliberated by the Task Force (see Appendix 1). The Task Force's analysis of the significant matters identified and its proposals have also been presented in public agenda papers for the Board's discussions. In the Task Force's view, there are no significant matters raised by the respondents that have not been brought to the Board's attention.

*Need for Further Consultation*

38. The Task Force believes that all significant matters have been deliberated and resolved by the Board. Those matters raised that were considered to be out of scope have been referred to the Planning Committee for its consideration. During its September 2017 meeting, the IESBA CAG did not raise any concerns about the Task Force's analysis of the significant matters or its proposals.
39. On the basis of the above, the Task Force does not believe there is a need for further consultation with stakeholders.

*Consideration of the Need for Further Re-Exposure*

40. The changes to Safeguards ED-2 and agreed-in-principle-text are set out in gray text in the **Agenda Item 2-E** in mark-up. The Task Force is of the view that the revisions are limited to changes made to address respondents' comments and suggestions.
41. In light of the above, the Task Force believes that re-exposure is not warranted in this instance as the text post-exposure are in response to feedback from respondents to Safeguards ED-1 and Safeguards ED-2 and do not fundamentally or substantively change the proposals in the EDs.

**Matter for IESBA Consideration**

4. Do IESBA members agree that the revisions to proposed text arising from the Safeguards project do not warrant re-exposure?

## Summary of Significant Comments and Responses

1. It is the Task Force's view that all significant matters raised by the respondents to [Safeguards ED-1](#) and [Safeguards ED-2](#) have been identified, analyzed and summarized for consideration by the Board along with the Task Force's proposed responses in public agenda materials. Those agenda materials are available on the IESBA's website – see IESBA meeting pages for: [June 2016](#), [September 2016](#), [December 2016](#), [June 2017](#) and [September 2017](#). The table below is a summary of the more significant matters raised and the related responses, in particular from regulatory respondents.

#	Comment	Response
IMPROVEMENTS TO STRENGTHEN THE GENERAL CONCEPTUAL FRAMEWORK PROVISIONS		
1.	Enhancements to facilitate enforceability	<ul style="list-style-type: none"> <li>Improved and more robust provisions in Section 120, including new requirements to explain how to:                             <ul style="list-style-type: none"> <li>Identify threats</li> <li>Evaluate the level of each threat identified, including new requirement to re-evaluate and address any newly identified threats</li> <li>Address threats, including requirement to review significant judgments and conclusions reached in determining whether actions taken effectively address threats</li> </ul> </li> <li>Refer also to paragraph 4 of this paper.</li> </ul>
2.	Maintain constant state of awareness  Engage in periodic re-evaluation of threats throughout	<ul style="list-style-type: none"> <li>PA required to remain alert for new information and changes in facts/circumstances</li> <li>Developed new application material to explain that the requirement to re-evaluate threats should be triggered by new information or changes in facts and circumstances that might create threats</li> <li>Refer also to the “Improvements of Examples of Actions that might be Safeguards” and Determination of when an Action is a Safeguard” sections of this paper.</li> </ul>
3.	Use terminology that reduces room for interpretation; clarify when an action or measure will qualify as a safeguard	<ul style="list-style-type: none"> <li>Clearer definitions/descriptions of key terms and concepts:                             <ul style="list-style-type: none"> <li>Phase 1 – safeguards, reasonable and informed third party, acceptable level</li> </ul> </li> </ul>

Safeguards—Remaining Issues and Task Force Proposals  
IESBA Meeting (December 2017)

		<ul style="list-style-type: none"> <li>○ Phase 2 – materiality in relation to financial statements</li> <li>• Refer also to paragraph 4 of this paper.</li> </ul>
IMPROVEMENTS TO ACTIONS TO ADDRESS THREATS, INCLUDING EXAMPLES OF ACTIONS THAT MIGHT BE SAFEGUARDS		
4.	Link each threat to a specific action by a PA or firm	<ul style="list-style-type: none"> <li>• Examples of “safeguards” that do not correlate directly to identified threats eliminated</li> <li>• Examples of actions that might be safeguards include a reference to the specific threats that are intended to reduce to an acceptable level</li> <li>• Provisions directed to firms and network firm in NAS section of Code</li> <li>• Refer also to the “Improvements of Examples of Actions that might be Safeguards” section of this paper.</li> </ul>
5.	Make clear that there are situations in which no safeguards are possible	<ul style="list-style-type: none"> <li>• Explicit statement that there are some situations in which threats can only be addressed by declining/ending the specific professional activity</li> </ul>
6.	Examples of safeguards in the Code should be appropriate, and the Code should provide guidance as to how PAs determine that a safeguard is appropriate	<ul style="list-style-type: none"> <li>• Deletion of safeguards in the Code that may be inappropriate or ineffective</li> <li>• Refer also to the “Improvements of Examples of Actions that might be Safeguards” and Determination of when an Action is a Safeguard” sections of this paper.</li> </ul>
7.	Revisit requirement with prohibition for providing certain recruiting services for all audit clients	<ul style="list-style-type: none"> <li>• The Basis for Conclusions document will explain the refinements made to the text that was presented to, and generally agreed by the IESBA during its September 2017 meeting.</li> </ul>

OUT OF SCOPE MATTERS	
1.	Matters relating to permissibility of certain types of NAS, including specific suggestions to align the prohibitions in the Code to those in the local Codes, regulations or laws at the jurisdictional level
2.	Independence provisions for other assurance engagements should be more closely aligned to those for audit and review engagements (e.g., Part 4B should also apply to network firms).

Safeguards—Remaining Issues and Task Force Proposals  
*IESBA Meeting (December 2017)*

3.	Establish a description of materiality and significance in the context the terms should be should be used the Code
4.	Align terminology used in Code with those in IAASB's standards
5.	Undertake outreach to communicate, promote and support effective adoption and implementation of revisions.
6.	Gather stakeholder input via a "post-implementation review" in order to assess whether revisions achieved the goals of the project.

## **Draft Outline for the Safeguards Basis for Conclusions**

- I. Introduction
  - (a) Project objective
  - (b) Overview of changes to the extant Code
- II. Background
  - (a) Approach to the project
  - (b) Link to other projects, including Structure
  - (c) Matters to be Considered as Future Board Initiatives
- III. Enhancements to the CF for all PAs
  - (a) Purpose of CF
    - Increased prominence
    - Emphasize that CF is required to be applied to assist PAs comply with the fundamental principles
    - Clarify that the CF is required to be applied to comply with independence provisions
    - Explain that provisions in CF are iterative and incremental (i.e., building blocks approach and minimal repetition)
  - (b) Overarching requirements
    - Professional judgment
    - RITP
    - Remaining alert for new information and changes in facts and circumstances
  - (c) Stages in the CF
    - Identifying threats
    - Evaluating the level of threats, including requirement to re-evaluate and address new threats identified
    - Addressing threats, including requirement to “step back” to review overall conclusion about whether threats are addressed
  - (d) Determining when a Threat is Reduced to an Acceptable Level
    - Conditions, policies and procedures
    - Factors to evaluate the level of threats



Safeguards—Remaining Issues and Task Force Proposals  
*IESBA Meeting (December 2017)*

- New description of Safeguards
- New description of acceptable level

IV. Revisions to PAIB Provisions

V. Revisions to PAPPs Provisions

VI. Revisions to NAS Provisions

- (a) Audit and Review Engagements
- (b) Assurance Engagements

VII. Revisions Relating to Other Independence Provisions

- (a) Audit and Review Engagements
- (b) Assurance Engagements