



6 January 2016

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

**INVITATION TO COMMENT ON IFAC'S INTERNATIONAL
ETHICS STANDARDS BOARD FOR ACCOUNTANTS (IESBA)
EXPOSURE DRAFT ON PROPOSED REVISIONS PERTAINING
TO SAFEGUARDS IN THE CODE – PHASE 1**

Comments to be received by 19 February 2016

The Hong Kong Institute of Certified Public Accountants' (Institute) Ethics Committee is seeking comments on the IESBA Exposure Draft (ED) *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1* which has been posted on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/code-of-ethics/exposure-drafts/>

The proposals respond to a public interest need to clarify the meaning of safeguards and to make sure that they directly relate to identified threats to compliance with the fundamental principles of the Code.

Key enhancements proposed in the ED, which is presented in accordance with the new structure and drafting conventions, include:

- More robust and prominent requirements related to the application of the conceptual framework, including a required overall assessment of the judgments made and conclusions reached;
- A clearer and more robust description of the concept of safeguards, and clarified and streamlined examples of safeguards; and
- New guidance regarding the application of the concept of a "reasonable and informed third party" that is essential to properly applying the conceptual framework.

The Explanatory Memorandum to the ED provides further background information on, and explanation of, the proposals.

The Ethics Committee invites all interested parties to comment on the IESBA's proposals. Comments should be supported by specific reasoning and should be submitted in written form. It would be helpful if respondents' comments could include the areas set out in the Request for Specific Comments section on page 15 of the ED.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

31 December 2015
Exposure Draft

Response Due Date
19 February 2016

ED of Proposed Changes to the Code of Ethics

Proposed Revisions Pertaining to Safeguards in the Code – Phase 1



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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The Exposure Draft can also be found on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/code-of-ethics/exposure-drafts/>

Exposure Draft

December 2015

Comments due: March 21, 2016

*International Ethics Standards Board for
Accountants®*

Proposed Revisions Pertaining to Safeguards in the Code—Phase 1

IESBA

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This Exposure Draft was developed and approved by the International Ethics Standards Board for Accountants® (IESBA®).

The IESBA is an independent standard-setting board that develops and issues high-quality ethical standards and other pronouncements for professional accountants worldwide. Through its activities, the IESBA develops the *Code of Ethics for Professional Accountants™*, which establishes ethical requirements for professional accountants.

The objective of the IESBA is to serve the public interest by setting high-quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, including auditor independence requirements, through the development of a robust, internationally appropriate code of ethics.

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

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REQUEST FOR COMMENTS

This Exposure Draft, *Proposed Revisions Pertaining to Safeguards in the Code—Phase 1*, was developed and approved by the International Ethics Standards Board for Accountants® (IESBA®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by March 21, 2016.**

Respondents are asked to submit their comments electronically through the IESBA website, using the “[Submit a Comment](#)” link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Technical Director at KenSiong@ethicsboard.org.

This publication may be downloaded from the IESBA website: www.ethicsboard.org. The approved text is published in the English language.

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EXPLANATORY MEMORANDUM

Introduction

1. This memorandum provides background to, and an explanation of, the proposed changes to the International Ethics Standards Board for Accountants (IESBA or the Board) *Code of Ethics for Professional Accountants* (the Code) in Section 100¹ and Section 200² of the extant Code (numbered proposed Sections 120 and 300 in the [restructured Code](#)³) pertaining to safeguards (herein referred to as the exposure draft (ED)). The Board approved these proposed changes for exposure at its November/December 2015 meeting.

Background

2. During its most recent consultation in developing its *Strategy and Work Plan 2014-2018*, the Board heard of regulatory concerns that certain safeguards identified in the Code may be inappropriate or ineffective. For example, it was suggested that some safeguards merely duplicate existing requirements imposed by quality control and auditing standards or the existing best practice for situations that do not involve a threat to independence. It was suggested that the Board should (a) bring clarity to safeguards that are not clear and eliminate those that are inappropriate, (b) better correlate a safeguard with the threat it is intended to address, and (c) make clear that not every threat can be addressed by a safeguard. In addition, some within the small and medium practices (SMP) community have expressed support for the Board to review the safeguards in the Code given the practical challenges SMPs tend to face from having limited resources, including numbers of partners.
3. The Board therefore determined to undertake this project with the aim of improving the clarity, appropriateness, and effectiveness of the safeguards in the Code. This ED has been developed under Phase I of the project.
4. This phase deals with a review of the conceptual framework and the sections relating to its general application for all professional accountants, as well as for professional accountants in public practice (i.e., proposed revisions to Sections 100 and 200 of the extant Code only). Through enhanced clarity and more robust application material relating to the conceptual framework, the proposals in the ED are aimed at further promoting the appropriate use of the conceptual framework among all professional accountants to comply with the fundamental principles of the Code. The Board believes that its proposals, which also include more robust application material to explain threats to compliance with the fundamental principles, will support professional accountants in fulfilling their responsibility to act in the public interest, and with respect to audits of financial statements, contribute to supporting audit quality.

Phase II

5. Informed by feedback from respondents on this ED, the Board plans to consider potential revisions to other sections of the extant Code with respect to safeguards as part of Phase II of the project. During this second phase, the Board will:
 - (a) Review the clarity, appropriateness and effectiveness of safeguards that pertain to non-

¹ Extant Section 100, *Introduction and Fundamental Principles*

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

³ See Exposure Draft, [Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1](#).

- assurance services (NAS) in extant Section 290 of the Code;⁴
- (b) Review the conceptual framework approach to independence,⁵ in light of the proposed revised description of the conceptual framework in proposed Section 120;
 - (c) Consider whether there is a need for alignment to the requirements and application material in ISA 220⁶ with respect to documentation of safeguards in the context of audits of financial statements; and
 - (d) Update other areas in the Code based on new terminology or revised concepts developed under the first phase of the project.
6. As part of this phase, the Board will consider, as appropriate, the unique challenges faced by the SMP sector in employing safeguards.
7. As part of its future work, the Board plans to continue to consider whether additional guidance is needed in the Code to explain the differences in the evaluation of whether a threat is at an acceptable level for a public interest entity (PIE) and an entity that is not a PIE.
8. In developing this ED, the Board agreed to apply the proposed structure and drafting conventions developed under its Structure of the Code project. See the [Safeguards Mapping Table](#). This Mapping Table is intended to assist respondents understand the proposed revisions to the extant Code.

Significant Matters

Public Interest Issues Addressed by this Project	
9.	<p>The Board believes that there are public interest benefits to be derived from its proposals because of the improved correlation between threats, safeguards and the fundamental principles. The proposed revisions:</p> <ul style="list-style-type: none"> (a) Include a strengthened emphasis on the requirements in the Code for professional accountants (including those in public practice) to: <ul style="list-style-type: none"> (i) Comply with the fundamental principles, rather than simply complying with specific requirements in the Code. The fundamental principles are not simply background information but establish the overarching objectives professional accountants are required to meet; and (ii) Apply the conceptual framework, which involves identifying, evaluating and addressing threats to compliance with the fundamental principles. The proposed revisions relating to the conceptual framework retain the principles-based approach in the extant Code, and continue to emphasize the need for professional accountants to exercise professional judgment in applying the conceptual framework. (b) Establish a new requirement and corresponding application material for the professional accountant to re-evaluate threats to compliance with the fundamental principles when the professional accountant becomes aware of new information or if there are changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an

⁴ Extant paragraphs 290.154–290.216

⁵ Extant paragraphs 290.14–290.12 and 291.4–291.11, *The Conceptual Framework Approach to Independence*; 290.100–290.101 and 291.100–291.101, *Application of the Conceptual Framework Approach to Independence*

⁶ International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*

- acceptable level.
- (c) Introduce a new requirement for the professional accountant to do an overall assessment by reviewing judgments made and overall conclusions reached to determine that threats to compliance with the fundamental principles are eliminated, or reduced to an acceptable level and that no further action is needed.
 - (d) Provide a revised definition of the term “acceptable level” that explains, in an affirmative manner, what it means. This relates to the professional accountant’s evaluation of whether a threat to the fundamental principles is at an acceptable level and the requirements to address a threat that is not at an acceptable level by eliminating it or reducing it to an acceptable level.
 - (e) Provide an enhanced description of, and more application material on, the “reasonable and informed third party” test. The professional accountant is required to perform a reasonable and informed third party test, as part of applying the conceptual framework, by taking into account whether such a third party would likely conclude that the professional accountant has complied with the fundamental principles. The proposals emphasize the importance of, and give more prominence to, the reasonable and informed third party test as part of evaluating and addressing threats.
 - (f) Clarify what constitutes a safeguard. In particular, actions are safeguards only when they are effective in eliminating threats to compliance with the fundamental principles or reducing them to an acceptable level; and
 - (g) Include enhanced application material that:
 - (i) Clarifies the types of threats to compliance with the fundamental principles; and
 - (ii) Better explains that certain conditions, policies and procedures are likely to assist professional accountants in evaluating the level of threats to compliance with the fundamental principles.
10. In addition, the proposals:
- (a) Build on the requirement in the extant Code for the professional accountant to decline or discontinue the specific professional activity when safeguards are not available, or cannot be applied by introducing a new, more robust requirement that better explains the actions the professional accountant should take to address threats.
 - (b) Improve the examples provided on safeguards by more clearly linking them to the relevant threats to the fundamental principles.
 - (c) Clarify that certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization are not regarded as safeguards (e.g., educational, training and experience requirements for the profession).

11. The remainder of this Explanatory Memorandum further explains each of the above proposed improvements to the Code with respect to safeguards.

Proposed Enhancements to the Conceptual Framework

Applicability of the Conceptual Framework and Approach Used to Develop the Proposals

12. Section 100 of the extant Code includes provisions that are applicable to all professional accountants and which address their responsibility to apply the conceptual framework in order to comply with the fundamental principles. Other sections of the extant Code (e.g., Section 200, in the case of professional accountants in public practice, and the provisions in Section 290 dealing with NAS) build

on Section 100 of the extant Code and provide more engagement-specific or service-specific guidance. The Board has agreed to retain this approach.

13. Accordingly, the proposed requirements and application material in proposed Section 120 pertaining to safeguards are applicable to all professional accountants, and are incorporated by reference in proposed Section 300 and therefore not repeated. Thus, proposed Section 300 includes revised application material for the appropriate application of the conceptual framework by professional accountants in public practice.
14. In developing proposed Section 120 pertaining to safeguards, the Board agreed to re-organize the conceptual framework in the extant Code as outlined below:
 - The Conceptual Framework
 - Introduction
 - Requirements and Application Material
 - Reasonable and Informed Third Party
 - Identifying Threats
 - Evaluating Threats
 - Addressing Threats
 - Re-evaluating Threats
 - Overall Assessment

Requirement to Apply the Conceptual Framework

15. The Board's proposals include a more explicit overarching requirement for all professional accountants to apply the conceptual framework to eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level (see paragraph R120.3). The proposals also include a more extensive introduction that better explains that the conceptual framework is an approach, required by the Code, for professional accountants to identify, evaluate and address⁷ threats to compliance with the fundamental principles (see paragraphs 120.1–120.2).
16. The Board considered having only the overarching requirement described above, supported by corresponding application material to explain how professional accountants should apply the conceptual framework. However, on advice from its Consultative Advisory Group (CAG), the Board agreed that it is important to also establish explicit requirements and application material with respect to identifying, evaluating, addressing and re-evaluating threats in the Code as a way of giving more prominence to each of these steps (see paragraphs R120.5–R120.8; 120.5 A1 – 120.5 A4; 120.6 A1 – 120.6 A3; 120.7 A1 – 120.7 A2; and 120.8 A1 – 120.8 A2).

Overall Assessment

17. The Board felt it important to include—as part of, and not distinct from, the application of the conceptual framework—a new requirement for the professional accountant to perform an *overall* assessment by reviewing the judgments made and overall conclusions reached. Under the proposal,

⁷ Threats to compliance with the fundamental principles are addressed when they are eliminated, or reduced to an acceptable level.

the professional accountant is required to determine, through an objective lens, that threats to compliance with the fundamental principles are eliminated or reduced to an acceptable level, and that no further action is needed. The proposed requirement notes that the reasonable and informed third party test is relevant when performing the overall assessment (see paragraphs R120.9 and R120.4 A1).

Enhancing Consistency in the Terminology Used in the Code

18. The Board is of the view that the Code is clearer when terms are used in a consistent manner. Accordingly, in developing its proposals, the Board has sought to enhance the consistency in use of terms throughout the Code. Terms that were revisited as part of the Board's deliberations include:
- (a) "Facts and circumstances," "circumstances and relationships," "facts, circumstances and relationships," and "interests and relationships." The Board agreed to use the term "facts and circumstances" in a broader context as an "umbrella" term, and the terms "...facts and circumstances, including professional activities (services), interests and relationships..." in situations where the Code requires a more specific reference or emphasis to "relationships" or "interests" (see paragraphs R120.5 and 300.1).
 - (b) Materiality and significance. Generally, the Board has not used the term "material" and "significant" or "significance" in proposed Sections 120 and 300. The Board believes that those terms, the meaning of which is consistent with the auditing concept of materiality as described in the ISAs, are not appropriate for establishing the overarching requirements and principles about threats and safeguards. However, the Board acknowledged that those terms may be relevant in the context of threats and safeguards relating to NAS, which the Board will consider under Phase II of this project.
19. The Board is of the view that the proposed changes relating to terminology will have implications for the rest of the Code and plans to consider potential conforming amendments in Phase II of the project.

Reasonable and Informed Third Party

20. The Board is of the view that applying the "reasonable and informed third party" concept is an important step established in the extant Code whereby the professional accountant considers whether there has been compliance with the fundamental principles.⁸ The ED clarifies this concept by proposing a more fulsome description of the term in paragraph 120.4 A1 as follows:

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

21. The proposed description of a "reasonable and informed third party" clarifies that the concept is a test intended to prompt an objective evaluation of the professional accountant's judgements and

⁸ Paragraphs 100.7 of the extant Code state that "..., the professional accountant shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards, such that compliance with the fundamental principles is not compromised."

conclusions. This evaluation takes into account all the relevant facts and circumstances that the professional accountant knows, or could be reasonably expected to know, at the time that the evaluation was made to determine whether the professional accountant complies with the fundamental principles.

22. The Board believes that its proposed description of a reasonable and informed third party supports professional accountants' appropriate application of the conceptual framework (i.e., in identifying, evaluating and addressing threats). The ED also provides practical guidance for how the reasonable and informed third party concept applies in re-evaluating threats and in performing the proposed required overall assessment explained above.
23. The Board has emphasized that the reasonable and informed third party is a hypothetical person (rather than an actual person). It is the Board's view that this hypothetical person should be competent and possess sufficient skills to objectively evaluate the appropriateness of the professional accountant's judgments and conclusions.

Identifying Threats

24. With respect to the identification of threats, the proposed revisions to the Code include a general discussion about threats, drawing from paragraphs 100.8 and 100.12 of the extant Code. The proposed revised application material describes the factors that may threaten compliance with the fundamental principles, and more clearly articulates that the identification of threats supports compliance with the fundamental principles (see paragraphs 120.5 A1 and 120.5 A2).
25. As part of its deliberations, the Board considered the threats listed in other national ethics codes, laws and regulations, including the way they were categorized. The Board ultimately concluded that the listing and categories of threats used in the extant Code remain appropriate.⁹

Conditions Policies and Procedures

26. The Board is proposing to withdraw the terms "safeguards created by the profession or legislation," "safeguards in the work environment" and "safeguards implemented by the entity" from the Code.
27. The Board accepts that there are conditions, policies and procedures that are established by the profession, legislation, regulation, the firm or employing organization that may impact the level of a threat to compliance with the fundamental principles. These conditions, policies and procedures can therefore affect the likelihood of identification of threats to compliance with the fundamental principles. Such conditions, policies and procedures, however, do not meet the revised description of "safeguards" (see discussion below). The Board has included examples of these conditions, policies and procedures in the ED (see paragraph 120.5 A4).

Evaluating Threats

28. The Board proposes to expand the application material in the extant Code¹⁰ to better describe the process by which professional accountants should evaluate threats. The Board believes that the conditions, policies and procedures (discussed above) might impact the professional accountant's evaluation of threats to compliance with the fundamental principles. Accordingly, the proposals include new application to this effect (see paragraph 120.6 A3).

⁹ See extant paragraph 100.12.

¹⁰ See extant paragraphs 100.8, 100.9, 100.14 and 100.16.

Revised Definition of Acceptable Level

29. The term “acceptable level” is critical to the proper understanding of the conceptual framework and the Code more broadly.¹¹ As a result, the Board accepted the advice of its CAG and proposes to:
- (a) Include the definition of “acceptable level” (currently in the Glossary of the extant Code) in the main body of the Code to give this important term appropriate prominence; and
 - (b) Better explain, in an affirmative manner, what the term means. The proposed definition states that “[a]n acceptable level is a level at which a reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles” (see paragraph 120.6 A1).
30. The Board acknowledges that the rest of the extant Code will need to be reviewed to ascertain the need for potential conforming changes. As noted in the Background section to this Explanatory Memorandum, the Board plans to undertake this review as part of Phase II of this project.

Addressing Threats

31. The Board observed inconsistencies in how the term “safeguards” is used in the extant Code. Specifically, the Board noted that there are instances where the term “safeguards” is intended to have a broad and conceptual meaning. In other instances, the term is used to more narrowly describe actions that the professional accountant undertakes to address threats to compliance with the fundamental principles. The Board proposes to discontinue using the term “safeguards” in its broader context. As discussed above, the Board is also proposing to withdraw the concepts of “safeguards created by the profession or legislation,” “safeguards in the work environment” and “safeguards implemented by the entity” from the Code.

Revised Description of Safeguards

32. In response to some of the concerns and suggestions raised by some stakeholders, the Board proposes a more robust description of safeguards in paragraph 120.7 A2 as follows:
- Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.
33. The Board is of the view that its proposed description of safeguards, together with the other proposed clarifications to the conceptual framework, establishes a stronger correlation between “threats and safeguards” and the fundamental principles in the Code.
34. Application of professional judgement continues to be a critical aspect of effectively applying safeguards. The professional accountant’s exercise of professional judgment is needed to determine

¹¹ The extant Code defines acceptable level as “A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.”

whether an action is a safeguard, and whether the safeguard remains appropriate to address the identified threat, if new information becomes available or if facts or circumstances change.

New Guidance for Addressing Threats to Compliance with the Fundamental Principles

35. The Board's proposal builds on the principles in paragraph 100.9 of the extant Code¹² and establishes a more robust requirement that specifies the actions the professional accountant should take to address threats (see paragraph R120.7). The new requirement states that if the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating or reducing them to an acceptable level by:
- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
 - (b) Applying safeguards, where available and capable of being applied; or
 - (c) Declining or discontinuing the specific professional activity or service involved.
36. New application material has also been included in the Code to note that there are some situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level (see paragraph 120.7 A1).

Re-evaluating Threats

37. The Board acknowledges that facts and circumstances might change over time and new information about threats and the appropriateness of safeguards might come to the attention of the professional accountant that might either:
- (a) Impact the level of a threat; or
 - (b) Affect the professional accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

Accordingly, the Board's proposals include a new requirement for the professional accountant to re-evaluate and address threats when new information becomes available, or when there are changes in facts or circumstances (see paragraph R120.8).

38. This new requirement is supported by new application material which explains that if the professional accountant identifies a new threat, the application of the conceptual framework requires that the professional accountant evaluate and address the threat as set out in accordance with the requirements and application material pertaining to evaluating and addressing threats in paragraphs R120.5–R120.8 (see paragraph 120.8 A2).

Application of the Conceptual Framework by Professional Accountants in Public Practice

39. As part of its Structure of the Code project, the Board has clarified the scope of proposed Section

¹² Paragraph 100.9 of the extant Code states: "... When applying the conceptual framework, a professional accountant may encounter situations in which threats cannot be eliminated or reduced to an acceptable level, either because the threat is too significant or because appropriate safeguards are not available or cannot be applied. In such situations, the professional accountant shall decline or discontinue the specific professional activity or service involved or, when necessary, resign from the engagement (in the case of a professional accountant in public practice) or the employing organization (in the case of a professional accountant in business)."

300 to better describe how the conceptual framework set out in proposed Section 120 applies to professional accountants in public practice (see paragraph 300.1). As this paragraph provides important context to the Safeguards proposals, it is also repeated in this ED.

More Prominent Overarching Requirement for Professional Accountants in Public Practice

40. The Board believes that the professional accountant should apply the requirements in the conceptual framework to address threats to compliance with the fundamental principles. Accordingly, the ED includes a proposed requirement upfront in proposed Section 300 that requires the professional accountant to comply with each of the fundamental principles and apply the conceptual framework set out in proposed Section 120 (see paragraph R300.2).
41. Through the revised introduction discussed above, and better alignment with proposed Section 120, the Board intends to strengthen the provisions in the extant Code that address the application of the conceptual framework for professional accountants in public practice.

Enhanced Application Material for Professional Accountants in Public Practice

42. As noted above, the application material in proposed Section 300 has been improved and builds on, but does not repeat, the proposals in Section 120. For example, proposed new application material has been developed for professional accountants in public practice to explain the conditions that might impact the evaluation of whether a threat is at an acceptable level. Similarly, enhanced application material has been added to assist professional accountants in evaluating and addressing threats to compliance with the fundamental principles (see paragraphs 300.2 A2–300.2 A8).

Streamlined Examples of Threats and Safeguards

43. With a new lead-in, the inclusion of sub-headings and improved drafting, the Board has streamlined and thereby clarified the examples of the types of threats that are included in the extant Code¹³ (see paragraph 300.2 A1).
44. In response to concerns from certain stakeholders about the quality and usefulness of the examples of safeguards in the extant Code, the Board is proposing to:
 - (a) Clarify that certain matters formerly characterized as safeguards in the extant Code¹⁴ are in fact conditions that might impact the professional accountant's evaluation of whether a threat is at an acceptable level. Those conditions include the nature of the client and its operating environment; the professional service being provided, and the firm and its operating environment (see paragraph 300.2 A2).
 - (b) Streamline the list of examples of conditions in the work environment within a firm that might impact the evaluation of the level of a threat (see paragraph 300.2 A6). To do so, the Board considered and leveraged the requirements in ISQC 1¹⁵ as well as analogous requirements and best practices included in the ethics codes of national standard setters.

¹³ See paragraphs 200.4–200.8 of the extant Code.

¹⁴ See paragraphs 200.12 and 200.15 of the extant Code.

¹⁵ International Standard on Quality Control (ISQC 1), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraphs 21 – 25

Examples of Safeguards

45. The Board is proposing to retain some of the examples of engagement-specific safeguards that are included in the extant Code.¹⁶ To better assist professional accountants in public practice address threats, those examples of safeguards now indicate the type of threat that is being addressed – an approach that assists in clarifying the correlation between the safeguards and threats in the Code (see paragraph 300.2 A9). For example, the Board agreed to include as an example of a safeguard the use of different partners and engagement teams with separate reporting lines for the provision of NAS to an assurance client to address self-review and familiarity threats.
46. The Board is also proposing to delete the examples included in the extant Code that no longer meet the proposed revised description of safeguards (for example, discussing ethical issues with those charged with governance of the client; and disclosing to those charged with governance of the client the nature of services provided and extent of fees charged).¹⁷

Re-evaluating Threats

47. The Board's proposals in Section 300 emphasize the requirement in proposed Section 120 pertaining to re-evaluating threats and state that new information or changes in facts or circumstances might:
 - (a) Impact the level of a threat; or
 - (b) Affect the professional accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats. (See paragraph 300.2 A10.)
48. A list of examples of new information or changes in facts and circumstances that might trigger the need for a professional accountant to re-evaluate threats is included in the ED (see paragraph 300.2 A11).
49. The proposals emphasize that in those situations, certain actions that have already been implemented as safeguards might no longer be effective in eliminating the threats or reducing them to an acceptable level (see paragraph 300.2 A11).

Overall Assessment

50. The proposals in Section 300 also emphasize that the requirement for an overall assessment or "step-back" in Section 120 that is discussed in paragraph 17 of this Explanatory Memorandum is also applicable to professional accountants in public practice (see paragraph 300.3 A12).

Project Timetable and Effective Date

51. As noted above, the Board's proposals pertaining to safeguards in this ED have been developed using the structure and drafting conventions established by the Structure of the Code project. The December 2015 [IESBA Update, Restructuring the Code of Ethics for Professional Accountants](#), outlines the IESBA's plan for coordination of its work on this project with the Structure of the Code project.
52. The Board intends to align the effective date of the revisions pertaining to safeguards with the effective date of the restructured Code.

¹⁶ See paragraph 200.13 of the extant Code.

¹⁷ See fourth and fifth bullet in paragraph 200.13 of the extant Code.

Guide for Respondents

53. The IESBA welcomes comments on all matters addressed in this ED, but especially those identified in the *Request for Specific Comments* below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

Request for Specific Comments

Proposed Revisions to the Conceptual Framework

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

If not, why not?

Proposed Revised Descriptions of "Reasonable and Informed Third Party" and "Acceptable Level"

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

Proposed Revised Description of Safeguards

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

If not, why not?

Proposals for Professional Accountants in Public Practice

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

Request for General Comments

54. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:
- (a) Small and Medium Practices (SMPs) – The IESBA invites comments regarding the impact of the proposed changes for SMPs.
 - (b) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular, on any foreseeable difficulties in applying them in their environment.
 - (c) *Translations*—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)

Section 120

The Conceptual Framework

Introduction

- 120.1 The circumstances in which professional accountants operate might create specific threats to compliance with the fundamental principles. The conceptual framework assists the accountant in complying with the fundamental principles and meeting the responsibility to act in the public interest. It accommodates the many variations in facts and circumstances that create threats to compliance with the fundamental principles and deters an accountant from concluding that a situation is permitted if it is not specifically prohibited by this Code.
- 120.2 The conceptual framework specifies an approach for the professional accountant to:
- (a) Identify threats to compliance with the fundamental principles;
 - (b) Evaluate the threats identified; and
 - (c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

- 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.

Reasonable and Informed Third Party

- 120.4 A1 The concept of a reasonable and informed third party is a test which involves an evaluation by a hypothetical person. Such a person possesses skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant's judgments and conclusions. This evaluation entails weighing all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the evaluation is made to determine whether the accountant complies with the fundamental principles.

Identifying Threats

- R120.5** The professional accountant shall identify threats to compliance with the fundamental principles. An understanding of the facts and circumstances, including professional activities, interests and relationships, that might compromise compliance with the fundamental principles is a prerequisite to the accountant's identification of threats to such compliance.
- 120.5 A1 Threats might be created by a broad range of facts and circumstances. It is impossible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

- 120.5 A2 Threats to compliance with the fundamental principles fall into one or more of the following categories:
- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence the professional accountant’s judgment or behavior;
 - (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made, or activity or service performed by the accountant, or by another individual within the accountant’s firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity or providing a current service;
 - (c) Advocacy threat – the threat that a professional accountant will promote a client’s or employer’s position to the point that the accountant’s objectivity is compromised;
 - (d) Familiarity threat – the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
 - (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.
- 120.5 A3 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.
- 120.5 A4 Certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization can affect the likelihood of the accountant’s identification of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:
- Corporate governance requirements.
 - Educational, training and experience requirements for the profession.
 - Effective complaint systems.
 - An explicitly stated duty to report breaches of ethical requirements.
 - Professional or regulatory monitoring and disciplinary procedures.

Evaluating Threats

- R120.6** When the professional accountant identifies a threat, the accountant shall evaluate whether such a threat is at an acceptable level.
- 120.6 A1 An acceptable level is a level at which a reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles.
- 120.6 A2 The existence of qualitative as well as quantitative factors is relevant to the professional accountant’s evaluation of threats, as is the combined effect of multiple threats, if applicable.
- 120.6 A3 The existence of conditions, policies and procedures discussed in paragraph 120.5 A4 above might impact the professional accountant’s evaluation of threats to compliance with the fundamental principles.

Addressing Threats

R120.7 If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating or reducing them to an acceptable level. The accountant shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied; or
- (c) Declining or discontinuing the specific professional activity or service involved.

120.7 A1 There are some situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. International Independence Standards C1 and C2 of the Code provide examples of such situations.

Safeguards

120.7 A2 Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.

Re-evaluating Threats

R120.8 If the professional accountant becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

120.8 A1 Remaining alert throughout the professional activity or service assists the professional accountant in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the professional accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

120.8 A2 If the professional accountant identifies a new threat, the application of the conceptual framework requires that the accountant evaluate and address this new threat as set out in paragraphs R120.5–R120.8 above.

Overall Assessment

R120.9 The professional accountant shall review judgments made and overall conclusions reached to determine that threats to compliance with the fundamental principles are eliminated or reduced to an acceptable level, and that no further action is needed. The reasonable and informed third party test described in paragraph 120.4 A1 is relevant to this assessment.

[Extant 100.17 – 100.25 that deal with Conflicts of Interest and Communicating with Those Charged With Governance are dealt with by the [Structure Project](#).]

C. SECTION 300 PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Section 300

Application of the Conceptual Framework Approach by Professional Accountants in Public Practice

Introduction

300.1 This Part of the Code describes considerations for professional accountants in public practice in the application of the conceptual framework set out in Section 120. This Part does not describe all of the facts and circumstances, including professional services, interests and relationships, that could be encountered by accountants¹⁸ that create or might create threats to compliance with the fundamental principles. Therefore, accountants are encouraged to be alert for such facts and circumstances.

Requirements and Application Material

R300.2 A professional accountant shall comply with each of the fundamental principles and apply the conceptual framework set out in Section 120 to eliminate threats to compliance with those fundamental principles or to reduce them to an acceptable level.

Identifying Threats

300.2 A1 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 activity or providing a professional service:

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.
- A firm having undue dependence on total fees from a client or the possibility of losing a significant client.
- A professional accountant having a significant close business relationship with a client.

(b) Self-review Threats

- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems.
- A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.
- A professional accountant being, or having recently been, a director or officer of the client, or having recently been employed by the client in a position to exert significant influence over the subject matter of the engagement.

¹⁸ In Part C and in C1 and C2, the term “professional accountant” refers to professional accountants in public practice and firms of professional accountants in practice.

- (c) Advocacy Threats
 - The professional accountant promoting shares in a client.
 - A professional accountant acting as an advocate on behalf of an audit client in litigation or disputes with third parties.
- (d) Familiarity Threats
 - A member of the engagement team having a close or immediate family member who is a director or officer of the client, or is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.
 - A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
 - Senior personnel having a long association with the assurance client.
- (e) Intimidation Threats
 - A firm being threatened with dismissal from a client engagement.
 - A professional accountant feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question.
 - A professional accountant being informed by a partner of the firm that a planned promotion will not occur unless the accountant agrees with an audit client's inappropriate accounting treatment.

The categories of threats are also discussed in Section 120.

Evaluating Threats

- 300.2 A2 Conditions that might impact the evaluation of whether a threat is at an acceptable level include the nature of:
- (a) The client and its operating environment;
 - (b) The professional service being provided; and
 - (c) The firm and its operating environment.

The Client and its Operating Environment

- 300.2 A3 The level of a threat might be impacted by the following types of client or professional service that is provided:
- (a) An audit client and whether the audit client is a public interest entity;
 - (b) An assurance client that is not an audit client; or
 - (c) A non-assurance client.

For example, providing a service to an audit client might be perceived to result in a higher level of threat to the fundamental principle of objectivity. Such a threat might be further increased when the audit client is a public interest entity with a large number and wide range of stakeholders.

300.2 A4 A professional accountant's evaluation of the level of the threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate persons other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

The Professional Service Being Provided

300.2 A5 The level of a threat is impacted by the nature and scope of the professional service. Examples of professional services, the threats that might arise as a result, and how a professional accountant may address those threats are discussed in International Independence Standards C1 and C2.

The Firm and its Operating Environment

300.2 A6 A professional accountant's evaluation of the level of a threat might be impacted by the work environment within a firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that professional accountants will act in the public interest.
- Methods and processes for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The engagement partner having authority for compliance with the fundamental principles, including decisions about the permissibility of services to an audit client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external complaints.

Addressing Threats

300.2 A7 If the professional accountant determines that the identified threats to compliance are not at an acceptable level, Section 120 requires that the accountant address those threats by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied; or
- (c) Declining or discontinuing the specific professional activity or service involved.

300.2 A8 There are some situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level, and the threats may not be addressed by applying

the requirements in Section 120. International Independence Standards C1 and C2 provide examples of such situations.

Examples of Safeguards

300.2 A9 Safeguards vary depending on the facts and circumstances. The following are examples of actions that in certain circumstances might be safeguards in addressing threats:

- Having a professional accountant who was not involved with the non-assurance service provided to an audit client review the non-assurance work performed, or otherwise advise as necessary might address a self-review threat.
- Having a professional accountant who was not a member of the team review the work performed or otherwise advise as necessary might address self-review threats.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review and familiarity threats.
- Consulting those charged with governance or an independent third party, including a committee of independent directors, a professional regulatory body or another professional accountant might address advocacy or intimidation threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy or familiarity threats.
- Rotating assurance team personnel might address self-interest and familiarity threats.

Re-evaluating Threats

300.2 A10 New information or changes in facts and circumstances might:

- (a) Impact the level of a threat; or
- (b) Affect the professional accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

300.2 A11 Examples of new information or changes in facts and circumstances include:

- When the scope of a professional service is expanded.
- When the client becomes a listed entity or acquires another business unit.
- When the firm merges with another firm.
- Where the engagement partner's immediate family member is recently employed by the client.

In those situations described above, actions already implemented as safeguards might no longer be effective in eliminating those threats or reducing them to an acceptable level.

Overall Assessment

300.2 A12 When applying the conceptual framework, Section 120 requires that the professional accountant reviews judgments made and overall conclusions reached to determine that threats to compliance with the fundamental principles are eliminated, or reduced to an acceptable level and that no further

action is needed. The reasonable and informed third party test described in Section 120 is relevant to this assessment.

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PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE PHASE 1 MAPPING TABLE

Note: This Mapping Table is a supplement to, and not part of, the [Exposure Draft \(ED\), Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#). It has been prepared by the Staff of the International Ethics Standards Board for Accountants®.

The Mapping Table compares Sections 100 and 200 of extant Code to the proposed Sections 120 and 300, respectively, in the ED. The proposals in the ED are drafted using the structure and drafting conventions of the proposed restructured Code. The Mapping Table also includes comments to explain the rationale for proposed revisions.

A. Extant Section 100 Compared to Proposed Section 120

Extant Code Section 100, Introduction and Fundamental Principles		Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
100.1	A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a professional accountant shall observe and comply with this Code. If a professional accountant is prohibited from complying with certain parts of this Code by law or regulation, the professional accountant shall comply with all other parts of this Code.		This paragraph is dealt with by the Structure project and has not been impacted by the Board's Safeguards project.

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

Extant Code Section 100, Introduction and Fundamental Principles		Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
100.2	<p>This Code contains three parts. Part A establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework that professional accountants shall apply to:</p> <p>(a) Identify threats to compliance with the fundamental principles;</p> <p>(b) Evaluate the significance of the threats identified; and</p>	<p>Requirements and Application Material</p> <p>R120.3 The professional accountant shall apply the conceptual framework which involves identifying, evaluating and addressing threats to compliance with the</p>	<p>More robust overarching requirements to apply the conceptual framework</p>
	<p>(c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level. Safeguards are necessary when the professional accountant determines that the threats are not at a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.</p> <p>A professional accountant shall use professional judgment in applying this conceptual framework.</p>	<p>fundamental principles.</p> <p>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>	

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

Extant Code Section 100, Introduction and Fundamental Principles		Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
100.3	Parts B and C describe how the conceptual framework applies in certain situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. They also describe situations where safeguards are not available to address the threats, and consequently, the circumstance or relationship creating the threats shall be avoided. Part B applies to professional accountants in public practice. Part C applies to professional accountants in business. Professional accountants in public practice may also find Part C relevant to their particular circumstances.	<p>Section 300, Application of the Conceptual Framework Approach by Professional Accountants in Public Practice</p> <p>Introduction</p> <p>300.1 This Part of the Code describes considerations for professional accountants in public practice in the application of the conceptual framework set out in Section 120. This Part does not describe all of the facts and circumstances, including professional services,</p>	This paragraphs is dealt with as part of Structure project, but because it includes useful contextual introductory information for proposed Section 300, it has been included in the Safeguards ED.
		interests and relationships, that could be encountered by accountants ¹ that create or might create threats to compliance with the fundamental principles. Therefore, accountants are encouraged to be alert for such facts and circumstances.	
100.4	The use of the word “shall” in this Code imposes a requirement on the professional accountant or firm to comply with the specific provision in which “shall” has been used. Compliance is required unless an exception is permitted by this Code.		This paragraph is dealt with by the Structure project and has not been impacted by the Board’s Safeguards project.

¹ In Part C and in C1 and C2, the term “professional accountant” refers to professional accountants in public practice and firms of professional accountants in practice.

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

Extant Code		Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
Section 100, Introduction and Fundamental Principles			
100.5	<p><i>Fundamental Principles</i></p> <p>A professional accountant shall comply with the following fundamental principles:</p> <p>(a) Integrity – to be straightforward and honest in all professional and business relationships.</p> <p>(b) Objectivity – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.</p>		As part of the Structure project, the fundamental principles have been moved to Section 110 of the re-structured Code.

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

Extant Code Section 100, Introduction and Fundamental Principles	Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
<p>(c) Professional Competence and Due Care – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.</p> <p>(d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.</p> <p>(e) Professional Behavior – to comply with relevant laws and regulations and avoid any action that discredits the profession.</p> <p>Each of these fundamental principles is discussed in more detail in Sections 110–150.</p>		
<p>100.6 <i>Conceptual Framework Approach</i></p> <p>The circumstances in which professional accountants operate may create specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates threats to compliance with the fundamental principles and specify the appropriate action. In addition, the nature</p>	<p>The Conceptual Framework Introduction</p> <p>120.1 The circumstances in which professional accountants operate might create specific threats to compliance with the fundamental principles. The conceptual</p>	<p>Enhanced application material to better describe the conceptual framework</p>

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

Extant Code	Section 100, Introduction and Fundamental Principles	Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
	<p>of engagements and work assignments may differ and, consequently, different threats may be created, requiring the application of different safeguards. Therefore, this Code establishes a conceptual framework that requires a professional accountant to identify, evaluate, and address threats to compliance with the fundamental principles.</p> <p>The conceptual framework approach assists professional accountants in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest. It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and can deter a professional accountant from concluding that a situation is permitted if it is not specifically prohibited.</p>	<p>framework assists the accountant in complying with the fundamental principles and meeting the responsibility to act in the public interest. It accommodates the many variations in facts and circumstances that create threats to compliance with the fundamental principles and deters an accountant from concluding that a situation is permitted if it is not specifically prohibited by this Code.</p> <p>120.2 The conceptual framework specifies an approach for the professional accountant to:</p> <ul style="list-style-type: none"> (a) Identify threats to compliance with the fundamental principles; (b) Evaluate the threats identified; and (c) Address the threats by eliminating or reducing them to an acceptable level. 	
100.7	<p>When a professional accountant identifies threats to compliance with the fundamental principles and, based on an evaluation of those threats, determines that they are not at an acceptable level, the professional accountant shall determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an</p>	<p>Requirements and Application Material</p> <p>Identifying Threats</p> <p>R120.5 The professional accountant shall identify threats to compliance with the fundamental principles. An understanding of the facts and</p>	<p>Enhanced and more prominent requirements for applying the conceptual framework that include identifying threats, evaluating threats and addressing threats.</p> <p>Improved description of</p>

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

<p>Extant Code Section 100, Introduction and Fundamental Principles</p>	<p>Proposed Section 120 (Re-structured), The Conceptual Framework</p>	<p>Comments</p>
<p>acceptable level. In making that determination, the professional accountant shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards, such that compliance with the fundamental principles is not compromised.</p>	<p>circumstances, including professional activities, interests and relationships, that might compromise compliance with the fundamental principles is a prerequisite to the accountant's identification of threats to such compliance.</p> <p>Evaluating Threats</p> <p>R120.6 When the professional accountant identifies a threat, the accountant shall evaluate whether such a threat is at an acceptable level.</p> <p>Addressing Threats</p> <p>R120.7 If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating or reducing them to an acceptable level. The accountant shall do so by:</p> <p>(a) Eliminating the circumstances, including interests or relationships, that are creating the threats;</p>	<p>reasonable and informed third party.</p>

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

Extant Code	Section 100, Introduction and Fundamental Principles	Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
		<p>(b) Applying safeguards, where available and capable of being applied; or</p> <p>(c) Declining or discontinuing the specific professional activity or service involved.</p> <p>Reasonable and Informed Third Party</p> <p>120.4 A1 The concept of a reasonable and informed third party is a test which involves an evaluation by a hypothetical person. Such a person possesses skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant's judgments and conclusions. This evaluation entails weighing all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the evaluation is made to determine whether the accountant complies with the</p>	

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

Extant Code Section 100, Introduction and Fundamental Principles		Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
		fundamental principles.	
100.8	A professional accountant shall evaluate any threats to compliance with the fundamental principles when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.	<p>Evaluating Threats</p> <p>R120.6 When the professional accountant identifies a threat, the accountant shall evaluate whether such a threat is at an acceptable level.</p> <p>120.6 A1 An acceptable level is a level at which a reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles.</p>	<p>Enhanced application material for evaluating threats that include:</p> <ul style="list-style-type: none"> • A new definition of acceptable level; and • The revised description of reasonable and informed third party.
		120.6 A3 The existence of conditions, policies and procedures discussed in paragraph 120.5A4 above might impact the professional accountant's	

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

Extant Code Section 100, Introduction and Fundamental Principles		Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
		<p>evaluation of threats to compliance with the fundamental principles.</p> <p>Reasonable and Informed Third Party</p> <p>120.4 A1 The reasonable and informed third party is a concept which involves a hypothetical person. Such person possesses skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant's judgements and conclusions. This evaluation entails weighing all the relevant facts and circumstances that the</p>	
		<p>professional accountant knows, or could reasonably be expected to know, at the time that the evaluation is made, to determine whether the professional accountant has complied with the fundamental principles.</p>	
100.9	A professional accountant shall take qualitative as well as quantitative factors into account when evaluating the significance of a threat. When applying	<p>Evaluating Threats</p> <p>120.6 A2 The existence of qualitative as well as quantitative factors is</p>	The first sentence of extant 100.9 is a requirement. This requirement is covered by

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

<p>Extant Code Section 100, Introduction and Fundamental Principles</p>	<p>Proposed Section 120 (Re-structured), The Conceptual Framework</p>	<p>Comments</p>
<p>the conceptual framework, a professional accountant may encounter situations in which threats cannot be eliminated or reduced to an acceptable level, either because the threat is too significant or because appropriate safeguards are not available or cannot be applied. In such situations, the professional accountant shall decline or discontinue the specific professional activity or service involved or, when necessary, resign from the engagement (in the case of a professional accountant in public practice) or the employing organization (in the case of a professional accountant in business).</p>	<p>relevant to the professional accountant’s evaluation of threats, as is the combined effect of multiple threats, if applicable.</p> <p>Addressing Threats</p> <p>R120.7 If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating or reducing them to an acceptable level. The accountant shall do so by:</p> <ul style="list-style-type: none"> (a) Eliminating the circumstances, including interests or relationships, that are creating the threats; (b) Applying safeguards, where available and capable of being applied; or (c) Declining or discontinuing the specific professional activity or service involved. 	<p>R120.6 discussed in the row above and in the application material referenced here in 120.6 A2.</p> <p>The Board’s proposals retain and builds on the rest of paragraph 100.9 of the extant Code to establish more robust requirements and application material for addressing threats. This includes a new description for the term safeguards.</p>

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

Extant Code	Section 100, Introduction and Fundamental Principles	Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
		<p>120.7 A1 There are some situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. International Independence Standards C1 and C2 of the Code provide examples of such situations.</p> <p><i>Safeguards</i></p> <p>120.7 A2 Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.</p>	

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

Extant Code Section 100, Introduction and Fundamental Principles		Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
100.10	Sections 290 and 291 contain provisions with which a professional accountant shall comply if the professional accountant identifies a breach of an independence provision of the Code. If a professional accountant identifies a breach of any other provision of this Code, the professional accountant shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall take whatever actions that may be available, as soon as possible, to satisfactorily address the consequences of the breach. The accountant shall determine whether to report the breach, for example, to those who may have been affected by the breach, a member body, relevant regulator or oversight authority.		This paragraph is dealt with by the Structure project and has not been impacted by the Board's Safeguards project.
100.11	When a professional accountant encounters unusual circumstances in which the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest, it is recommended that the professional accountant consult with a member body or the relevant regulator.		This paragraph is dealt with by the Structure project and has not been impacted by the Board's Safeguards project.
100.12	<i>Threats and Safeguards</i> Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship	Identifying Threats 120.5 A1 Threats might be created by a broad range of facts and circumstances. It is impossible to define every situation that creates threats. In addition, the nature of engagements	For consistency, the term "facts and circumstances" has been used as an "umbrella" term" to replace the terms "...facts and circumstances," "circumstances and relationships," "facts,

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<p>Extant Code Section 100, Introduction and Fundamental Principles</p>	<p>Proposed Section 120 (Re-structured), The Conceptual Framework</p>	<p>Comments</p>
<p>may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:</p> <ul style="list-style-type: none"> (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence the professional accountant’s judgment or behavior; (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made, or activity or service performed by the professional accountant, or by another individual within the professional accountant’s firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity or providing a current service; (c) Advocacy threat – the threat that a professional accountant will promote a client’s or employer’s position to the point that the professional accountant’s objectivity is compromised; (d) Familiarity threat – the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or 	<p>and work assignments might differ and, consequently, different types of threats might be created.</p> <p>120.5 A2 Threats to compliance with the fundamental principles fall into one or more of the following categories:</p> <ul style="list-style-type: none"> (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence the professional accountant’s judgment or behavior; (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made, or activity or service performed by the accountant, or by another individual within the accountant’s firm or employing organization, on which the accountant will rely when forming a judgment as part of 	<p>circumstances and relationships,” and “interests and relationships” in the extant Code.</p>

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<p>Extant Code Section 100, Introduction and Fundamental Principles</p>	<p>Proposed Section 120 (Re-structured), The Conceptual Framework</p>	<p>Comments</p>
<p>perceived pressures, including attempts to exercise undue influence over the professional accountant.</p> <p>Parts B and C of this Code explain how these categories of threats may be created for professional accountants in public practice and professional accountants in business, respectively. Professional accountants in public practice may also find Part C relevant to their particular circumstances.</p>	<p>performing a current activity or providing a current service;</p> <p>(c) Advocacy threat – the threat that a professional accountant will promote a client’s or employer’s position to the point that the accountant’s objectivity is compromised;</p> <p>(d) Familiarity threat – the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and</p> <p>(e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the</p>	

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

Extant Code	Section 100, Introduction and Fundamental Principles	Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
		<p style="text-align: center;">accountant.</p> <p>120.5 A3 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.</p>	
100.13	<p>Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. They fall into two broad categories:</p> <p>(a) Safeguards created by the profession, legislation or regulation; and</p> <p>(b) Safeguards in the work environment.</p>	<p>Addressing Threats</p> <p><i>Safeguards</i></p> <p>120.7 A2 Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.</p>	Enhanced description of safeguards.
100.14	<p>Safeguards created by the profession, legislation or regulation include:</p> <ul style="list-style-type: none"> • Educational, training and experience requirements for entry into the profession • Continuing professional development requirements • Corporate governance regulations • Professional standards • Professional or regulatory monitoring and disciplinary procedures • External review by a legally empowered third 	<p>Identifying Threats</p> <p>120.5A4 Certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization can affect the likelihood of the professional accountant’s identification of threats to compliance with the fundamental principles.</p>	<p>Re-characterization of</p> <p>(a) Safeguards created by the profession, legislation or regulation; and</p> <p>(b) Safeguards in the work environment</p> <p>as matters that might impact the professional accountant’s identification of threats to compliance with the fundamental principles.</p>

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

Extant Code	Section 100, Introduction and Fundamental Principles	Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
	<ul style="list-style-type: none"> party of the reports, returns, communications or information produced by a professional accountant 	<p>Examples of such conditions, policies and procedures include:</p> <ul style="list-style-type: none"> Corporate governance requirements. Educational, training and experience requirements for the profession. Effective complaint systems. An explicitly stated duty to report breaches of ethical requirements. <p>Professional or regulatory monitoring and disciplinary procedures.</p>	by proposed paragraph 300.1. See table B.
100.15	Parts B and C of this Code discuss safeguards in the work environment for professional accountants in public practice and professional accountants in business, respectively.		Paragraph 100.15 is subsumed
100.16	<p>Certain safeguards may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the accounting profession, legislation, regulation, or an employing organization, include:</p> <ul style="list-style-type: none"> Effective, well-publicized complaint systems operated by the employing organization, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior. An explicitly stated duty to report breaches of ethical requirements 		
		<p>Re-evaluating Threats</p> <p>R120.8 If the professional accountant becomes aware of new information or changes in facts and circumstances that might</p>	New requirement and application material for re-evaluating threats

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Extant Code	Section 100, Introduction and Fundamental Principles	Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
		<p>impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.</p> <p>120.8 A1 Remaining alert throughout the professional activity or service assists the professional accountant in determining whether new information has emerged or changes in facts and circumstances have occurred that:</p> <ul style="list-style-type: none"> (a) Impact the level of a threat; or (b) Affect the professional accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats. <p>120.8 A2 If the professional accountant identifies a new threat, the application of the conceptual framework requires that the accountant evaluate and address this new threat as set out in paragraphs R120.5–</p>	

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Extant Code Section 100, Introduction and Fundamental Principles	Proposed Section 120 (Re-structured), The Conceptual Framework	Comments
	R120.8 above.	
	<p>Overall Assessment</p> <p>R120.9 The professional accountant shall review judgments made and overall conclusions reached to determine that threats to compliance with the fundamental principles are eliminated or reduced to an acceptable level, and that no further action is needed. The reasonable and informed third party test described in paragraph 120.4 A1 is relevant to this assessment.</p>	New “step-back” requirement
<p><i>Extant paragraphs 100.17–100.25 that deal with Conflicts of Interest and Communicating with Those Charged With Governance are dealt with by the Structure project.</i></p>		

B. Section 200 Compared to Proposed Section 300

Extant Code Section 200, <i>Introduction</i>		Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i>	Comments
<p>200.1</p>	<p>This Part of the Code describes how the conceptual framework contained in Part A applies in certain situations to professional accountants in public practice. This Part does not describe all of the circumstances and relationships that could be encountered by a professional accountant in public practice that create or may create threats to compliance with the fundamental principles. Therefore, the professional accountant in public practice is encouraged to be alert for such circumstances and relationships.</p>	<p>Introduction</p> <p>300.1 This Part of the Code describes considerations for professional accountants in public practice in the application of the conceptual framework set out in Section 120. This Part does not describe all of the facts and circumstances, including professional services, interests and relationships, that could be encountered by accountants² that create or might create threats to compliance with the fundamental principles. Therefore, accountants are encouraged to be alert for such facts and circumstances.</p> <p>Requirements and Application Material</p> <p>R300.2 A professional accountant shall comply with each of the fundamental principles and apply the conceptual framework set out in Section 120 to eliminate threats to compliance with those fundamental principles or to reduce them to an acceptable level.</p>	

² In Part C and in C1 and C2, the term “professional accountant” refers to professional accountants in public practice and firms of professional accountants in practice.

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Extant Code Section 200, <i>Introduction</i>		Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i>	Comments
200.2	A professional accountant in public practice shall not knowingly engage in any business, occupation, or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.		This paragraph is dealt with by the Structure project and has not been impacted by the Board's Safeguards project.
200.3	<p><i>Threats and Safeguards</i></p> <p>Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to an audit client and whether the audit client is a public interest entity, to an assurance client that is not an audit client, or to a non-assurance client.</p> <p>Threats fall into one or more of the following categories:</p> <ul style="list-style-type: none"> (a) Self-interest; (b) Self-review; (c) Advocacy; (d) Familiarity; and (e) Intimidation. <p>These threats are discussed further in Part A of this Code.</p>	<p>Identifying Threats</p> <p>300.2 A1 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 activity or providing a professional service:</p> <ul style="list-style-type: none"> (a) Self-interest Threats <ul style="list-style-type: none"> • A professional accountant having a direct financial interest in a client. • A firm having undue dependence on total fees from a client or the possibility of losing a significant client. • A professional accountant having a 	Streamlined examples of the types of threats. These were included in paragraphs 200.3–200.8 of the extant Code.
200.4	<p>Examples of circumstances that create self-interest threats for a professional accountant in public practice include:</p> <ul style="list-style-type: none"> • A member of the assurance team having a direct 		

<p>Extant Code Section 200, Introduction</p>	<p>Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i></p>	<p>Comments</p>
<p>financial interest in the assurance client.</p> <ul style="list-style-type: none"> • A firm having undue dependence on total fees from a client. • A member of the assurance team having a significant close business relationship with an assurance client. • A firm being concerned about the possibility of losing a significant client. • A member of the audit team entering into employment negotiations with the audit client. • A firm entering into a contingent fee arrangement relating to an assurance engagement. • A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the professional accountant's firm. <p>Examples of circumstances that create self-review threats for a professional accountant in public practice include:</p> <ul style="list-style-type: none"> • A firm issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems. • A firm having prepared the original data used to generate records that are the subject matter of the assurance engagement. • A member of the assurance team being, or 	<p>significant close business relationship with a client.</p> <p>(b) Self-review Threats</p> <ul style="list-style-type: none"> • A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems. • A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement. • A professional accountant being, or having recently been, a director or officer of the client, or having recently been employed by the client in a position to exert significant influence over the subject matter of the 	

<p>Extant Code Section 200, Introduction</p>	<p>Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i></p>	<p>Comments</p>
<p>200.6</p> <p>having recently been, a director or officer of the client.</p> <ul style="list-style-type: none"> • A member of the assurance team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement. • The firm performing a service for an assurance client that directly affects the subject matter information of the assurance engagement. <p>Examples of circumstances that create advocacy threats for a professional accountant in public practice include:</p> <ul style="list-style-type: none"> • The firm promoting shares in an audit client. • A professional accountant acting as an advocate on behalf of an audit client in litigation or disputes with third parties <p>200.7</p> <p>Examples of circumstances that create familiarity threats for a professional accountant in public practice include:</p> <ul style="list-style-type: none"> • A member of the engagement team having a close or immediate family member who is a director or officer of the client. • A member of the engagement team having a close or immediate family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement. • A director or officer of the client or an employee 	<p>engagement.</p> <p>(c) Advocacy Threats</p> <ul style="list-style-type: none"> • The professional accountant promoting shares in a client. • A professional accountant acting as an advocate on behalf of an audit client in litigation or disputes with third parties. <p>(d) Familiarity Threats</p> <ul style="list-style-type: none"> • A member of the engagement team having a close or immediate family member who is a director or officer of the client, or is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement. • A director or officer of the client, or an employee in a position to exert significant influence over the 	

<p>Extant Code Section 200, Introduction</p>	<p>Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i></p>	<p>Comments</p>
<p>in a position to exert significant influence over the subject matter of the engagement having recently served as the engagement partner.</p> <ul style="list-style-type: none"> • A professional accountant accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential. <p>Senior personnel having a long association with the assurance client.</p>	<p>subject matter of the engagement, having recently served as the engagement partner.</p> <ul style="list-style-type: none"> • Senior personnel having a long association with the assurance client. <p>(e) Intimidation Threats</p> <ul style="list-style-type: none"> • A firm being threatened with dismissal from a client engagement. • A professional accountant feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question. • A professional accountant being informed by a partner of the firm that a planned promotion will not occur unless the accountant agrees with an audit client's inappropriate accounting treatment. <p>The categories of threats are also discussed</p>	

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<p>Extant Code Section 200, Introduction</p>	<p>Proposed Section 300, Application of the Conceptual Framework by Professional Accountants in Public Practice</p>	<p>Comments</p>	
		<p>in Section 120.</p>	
<p>200.8</p>	<p>Examples of circumstances that create intimidation threats for a professional accountant in public practice include:</p> <ul style="list-style-type: none"> • A firm being threatened with dismissal from a client engagement. • An audit client indicating that it will not award a planned non-assurance contract to the firm if the firm continues to disagree with the client’s accounting treatment for a particular transaction. • A firm being threatened with litigation by the client. • A firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees. • A professional accountant feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question. • A professional accountant being informed by a partner of the firm that a planned promotion will not occur unless the accountant agrees with an audit client’s inappropriate accounting treatment. 		
<p>200.9</p>	<p>Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:</p> <p>(a) Safeguards created by the profession, legislation or regulation; and</p> <p>(b) Safeguards in the work environment.</p>	<p>Section 120, The Conceptual Framework Addressing Threats <i>Safeguards</i></p> <p>120.7 A2 Safeguards are actions, individually or in combination, that the</p>	<p>An improved description of safeguards is now included in proposed Section 120.</p>

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Extant Code Section 200, <i>Introduction</i>		Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i>	Comments
	Examples of safeguards created by the profession, legislation or regulation are described in paragraph 100.14 of Part A of this Code.	professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.	
200.10	A professional accountant in public practice shall exercise judgment to determine how best to deal with threats that are not at an acceptable level, whether by applying safeguards to eliminate the threat or reduce it to an acceptable level or by terminating or declining the relevant engagement. In exercising this judgment, a professional accountant in public practice shall consider whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of safeguards, such that compliance with the fundamental principles is not compromised. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm.	<p>Addressing Threats</p> <p>300.2 A7 If the professional accountant determines that the identified threats to compliance are not at an acceptable level, Section 120 requires that the accountant address those threats by:</p> <ul style="list-style-type: none"> (a) Eliminating the circumstances, including interests or relationships, that are creating the threats; (b) Applying safeguards, where available and capable of being applied; or (c) Declining or discontinuing the specific professional activity or service involved. <p>300.2 A8 There are some situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level, and the threats may not be addressed by</p>	New application material to emphasize the requirement in proposed Section 120 relating to addressing threats.

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Extant Code Section 200, <i>Introduction</i>		Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i>	Comments
		applying the requirements in Section 120. International Independence Standards C1 and C2 provide examples of such situations.	
200.11	In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise firm-wide safeguards and engagement-specific safeguards.		This paragraph has been withdrawn.
200.12	<p>Examples of firm-wide safeguards in the work environment include:</p> <ul style="list-style-type: none"> • Leadership of the firm that stresses the importance of compliance with the fundamental principles. • Leadership of the firm that establishes the expectation that members of an assurance team will act in the public interest. • Policies and procedures to implement and monitor quality control of engagements. • Documented policies regarding the need to identify threats to compliance with the fundamental principles, evaluate the significance of those threats, and apply safeguards to eliminate or reduce the threats to an acceptable level or, when appropriate safeguards are not available or cannot be applied, terminate or decline the relevant engagement. • Documented internal policies and procedures requiring compliance with the fundamental 	<p>Evaluating Threats</p> <p><i>The Firm and its Operating Environment</i></p> <p>300.2 A6 A professional accountant's evaluation of the level of a threat might be impacted by the work environment within a firm and its operating environment. For example:</p> <ul style="list-style-type: none"> • Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that professional accountants will act in the public interest. • Methods and processes for establishing and monitoring compliance with the fundamental principles by all personnel. • Compensation, performance appraisal and disciplinary 	Re-characterization of firm-wide safeguards as matters that might impact the professional accountant's evaluation of the level of a threat.

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<p>Extant Code Section 200, <i>Introduction</i></p>	<p>Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i></p>	<p>Comments</p>
<p>principles.</p> <ul style="list-style-type: none"> • Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients. • Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client. • Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client. • Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement. • Timely communication of a firm’s policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures. • Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm’s quality control system. • Advising partners and professional staff of assurance clients and related entities from which independence is required. • A disciplinary mechanism to promote compliance with policies and procedures. 	<p>policies and procedures that promote compliance with the fundamental principles.</p> <ul style="list-style-type: none"> • Management of the reliance on revenue received from a single client. • The engagement partner having authority for compliance with the fundamental principles, including decisions about the permissibility of services to an audit client. • Educational, training and experience requirements. • Processes to facilitate and address internal and external complaints. 	

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<p>Extant Code Section 200, Introduction</p>	<p>Proposed Section 300, Application of the Conceptual Framework by Professional Accountants in Public Practice</p>	<p>Comments</p>
<ul style="list-style-type: none"> Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them. 		
<p>200.13 Examples of engagement-specific safeguards in the work environment include:</p> <ul style="list-style-type: none"> Having a professional accountant who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary. Having a professional accountant who was not a member of the assurance team review the assurance work performed or otherwise advise as necessary. Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant. Discussing ethical issues with those charged with governance of the client. Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged. Involving another firm to perform or re-perform part of the engagement. Rotating senior assurance team personnel. 	<p>Addressing Threats</p> <p><i>Examples of Safeguards</i></p> <p>300.2 A9 Safeguards vary depending on the facts and circumstances. The following are examples of actions that in certain circumstances might be safeguards in addressing threats:</p> <ul style="list-style-type: none"> Having a professional accountant who was not involved with the non-assurance service provided to an audit client review the non-assurance work performed, or otherwise advise as necessary might address a self-review threat. Having a professional accountant who was not a member of the team review the work performed or otherwise advise as necessary might address self-review threats. Using different partners and engagement teams with 	<p>Improved examples of safeguards with linkage to threats</p>

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Extant Code Section 200, <i>Introduction</i>		Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i>	Comments
		<p>separate reporting lines for the provision of non-assurance services to an assurance client might address self-review and familiarity threats.</p> <ul style="list-style-type: none"> • Consulting those charged with governance or an independent third party, including a committee of independent directors, a professional regulatory body or another professional accountant might address advocacy or intimidation threats. • Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy or familiarity threats. • Rotating assurance team personnel might address self-interest and familiarity threats. 	
200.14	Depending on the nature of the engagement, a professional accountant in public practice may also be able to rely on safeguards that the client has implemented. However it is not possible to rely solely on such safeguards to reduce threats to an acceptable level.	<p>Evaluating Threats</p> <p>300.2 A2 Conditions that might impact the evaluation of whether a threat is at an acceptable level include the nature of:</p> <p>(a) The client and its operating environment;</p>	Safeguards that the client has implemented have been re-characterized as matters that might impact the professional accountant's evaluation

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Extant Code	Section 200, <i>Introduction</i>	Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i>	Comments
		<p>(b) The professional service being provided; and</p> <p>(c) The firm and its operating environment.</p>	of the level of a threat.
200.15	<p>Examples of safeguards within the client’s systems and procedures include:</p> <ul style="list-style-type: none"> • The client requires persons other than management to ratify or approve the appointment of a firm to perform an engagement. • The client has competent employees with experience and seniority to make managerial decisions. • The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements. • The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm’s services. 	<p>Evaluating Threats</p> <p><i>The Client and its Operating Environment</i></p> <p>300.2 A3 The level of a threat might be impacted by the following types of client or professional service that is provided:</p> <p>(a) An audit client and whether the audit client is a public interest entity;</p> <p>(b) An assurance client that is not an audit client; or</p> <p>(c) A non-assurance client.</p> <p>For example, providing a service to an audit client might be perceived to result in a higher level of threat to the fundamental principle of objectivity. Such a threat might be further increased when the audit client is a public interest entity with a large number and wide range of stakeholders.</p> <p>300.2 A4 A professional accountant’s evaluation of the level of the threat might also be impacted by a client’s</p>	Examples of safeguards that the client has implemented have been re-characterized as examples of matters that might impact the professional accountant’s evaluation of the level of a threat.

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<p>Extant Code Section 200, Introduction</p>	<p>Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i></p>	<p>Comments</p>	
		<p>operating environment. For example:</p> <ul style="list-style-type: none"> • The client requires appropriate persons other than management to ratify or approve the appointment of a firm to perform an engagement. • The client has competent employees with experience and seniority to make managerial decisions. • The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements. <p>The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.</p>	
		<p><i>The Professional Service Being Provided</i></p> <p>300.2 A5 The level of a threat is impacted by the nature and scope of the professional service. Examples of professional services, the threats that might arise as a result, and how a professional accountant may address those threats are discussed in International Independence Standards C1 and C2.</p>	<p>New application material</p>

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

<p>Extant Code Section 200, Introduction</p>	<p>Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i></p>	<p>Comments</p>	
		<p>Re-evaluating Threats</p> <p>300.2 A10 New information or changes in facts and circumstances might:</p> <ul style="list-style-type: none"> (a) Impact the level of a threat; or (b) Affect the professional accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats. <p>300.2 A11 Examples of new information or changes in facts and circumstances include:</p> <ul style="list-style-type: none"> • When the scope of a professional service is expanded. • When the client becomes a listed entity or acquires another business unit. • When the firm merges with another firm. • Where the engagement partner's immediate family member is recently employed by the client. <p>In those situations described above, actions already implemented as safeguards might no longer be</p>	<p>New application material to emphasize the need to re-evaluate threats and to provide examples of factors for determining when to re-evaluate threats</p>

PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE (PHASE 1)—MAPPING TABLE

<p>Extant Code Section 200, Introduction</p>	<p>Proposed Section 300, <i>Application of the Conceptual Framework by Professional Accountants in Public Practice</i></p>	<p>Comments</p>	
		<p>effective in eliminating those threats or reducing them to an acceptable level.</p>	
		<p>Overall Assessment 300.2A12 When applying the conceptual framework, Section 120 requires that the professional accountant reviews judgments made and overall conclusions reached to determine that threats to compliance with the fundamental principles are eliminated, or reduced to an acceptable level and that no further action is needed. The reasonable and informed third party test described in Section 120 is relevant to this assessment.</p>	<p>New “step-back” requirement</p>

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IESBA Makes Substantial Progress on Restructuring Code of Ethics for Professional Accountants; Also Proposes Enhanced Provisions Related to Safeguards

The International Ethics Standards Board for Accountants® (IESBA®, the Ethics Board) today released for public comment two Exposure Drafts (EDs) proposing key enhancements to fundamental aspects of the *Code of Ethics for Professional Accountants* (the Code).

The first ED, *Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1* (<http://www.ifac.org/publications-resources/exposure-draft-improving-structure-code-ethics-professional-accountants-phase>) (Structure ED) represents the first application of proposed new structure and drafting conventions for the Code, covering both a number of the provisions of the Code dealing with its general application and selected sections addressing professional accountants in public practice. In addition to the use of clearer language, key features in the Structure ED include:

- Requirements clearly distinguished from application material;
- Increased clarity of responsibility for compliance with the Code’s requirements;
- A reorganization of the content of the Code; and
- A new Guide to the Code.

“The Board has undertaken to restructure the Code as a high priority. This is a major infrastructural undertaking, three years in the making already, and responds to a public interest need for the Code to be more understandable and usable,” said IESBA Chairman Dr. Stavros Thomadakis.

The second ED, *Proposed Revisions Pertaining to Safeguards in the Code—Phase 1* (<https://www.ifac.org/publications-resources/proposed-revisions-pertaining-safeguards-code-phase-1>) (Safeguards ED) includes enhanced requirements and application material pertaining to the application of the Code’s conceptual framework, including safeguards.

“Safeguards are a linchpin of the ‘threats and safeguards’ approach that is fundamental to the proper application of the Code. The proposals respond to a public interest need to clarify the meaning of safeguards and to make sure that they

directly relate to identified threats to compliance with the fundamental principles of the Code,” explained Dr. Thomadakis.

Key enhancements proposed in the Safeguards ED, which is presented in accordance with the new structure and drafting conventions, include:

- More robust and prominent requirements related to the application of the conceptual framework, including a required overall assessment of the judgments made and conclusions reached;
- A clearer and more robust description of the concept of safeguards, and clarified and streamlined examples of safeguards; and
- New guidance regarding the application of the concept of a “reasonable and informed third party” that is essential to properly applying the conceptual framework.

“Pending stakeholder feedback on the EDs, the IESBA will continue with work on the next phases of the projects, which will include restructuring other sections of the Code and a review of safeguards pertaining to the provision of non-assurance services to audit and other assurance clients,” added IESBA Technical Director Ken Siong.

Details about the second phases of the projects, including information about the Ethics Board’s plans for coordination of the restructuring effort with other work streams in progress, can be found in the IESBA Update, *Restructuring the Code of Ethics for Professional Accountants* (<http://www.ifac.org//publications-resources/exposure-draft-improving-structure-code-ethics-professional-accountants-phase>).

How to Comment

The Ethics Board invites all stakeholders to comment on the EDs. To access the EDs and submit a comment, please visit the Ethics Board’s website at www.ethicsboard.org (<http://www.ethicsboard.org/>).

Comments on the Safeguards ED are requested by **March 21, 2016**. Comments on the Structure ED are requested by **April 18, 2016**.

About the IESBA

The International Ethics Standards Board for Accountants (<http://www.ifac.org/ethics>) is an independent standard-setting board that develops and issues, in the public interest, high-quality ethical standards and other pronouncements for professional accountants worldwide. Through its activities, the IESBA develops the *Code of Ethics for Professional Accountants*, which establishes ethical requirements for professional accountants. The structures and processes that support the operations of the IESBA are facilitated by IFAC. Please visit www.ethicsboard.org (<http://www.ethicsboard.org/>) for more information, and follow us on Twitter @Ethics_Board (https://twitter.com/Ethics_Board).

About IFAC®

IFAC (<http://www.ifac.org/>) is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is

comprised of more than 175 members and associates in more than 130 countries and jurisdictions, representing approximately 2.8 million accountants in public practice, education, government service, industry, and commerce.

Related Resources

- Call for Nominations Issued for Independent Standard-Setting Boards; Seeking Highly Qualified Candidates (</news-events/2015-01/call-nominations-issued-independent-standard-setting-boards-seeking-highly-quali>)
- IESBA Launches New Web-Based Version of the Code of Ethics for Professional Accountants (</news-events/2014-12/iesba-launches-new-web-based-version-code-ethics-professional-accountants>)
- IESBA Makes Substantial Progress on Restructuring Code of Ethics for Professional Accountants; Also Proposes Enhanced Provisions Related to Safeguards (</news-events/2015-12/iesba-makes-substantial-progress-restructuring-code-ethics-professional>)
- IESBA Progresses toward Global Standard on Responding to Non-Compliance with Laws and Regulations; Issues Revised Proposal (</news-events/2015-05/iesba-progresses-toward-global-standard-responding-non-compliance-laws-and>)
- IESBA Reinforces Auditor Independence Provisions; Further Limits Exceptions and Clarifies Guidance around Non-Assurance Services (</news-events/2015-04/iesba-reinforces-auditor-independence-provisions-further-limits-exceptions-and-c>)

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