

Supplement 1 to Agenda Item 4-A

Compilation of Comments – General Safeguards ED-2

Note: This supplement has been prepared for information only. A comprehensive summary of the significant comments received as of May 17, 2017 on the January 2017 Exposure Draft, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments](#) (Safeguards ED-2) and the Task Force’s related analysis are included in Agenda Item X-A. All comment letters on the ED can be accessed [here](#).

Please consider the environment before printing this supplement.

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

#	Respondent	Detailed Comment
1.	ACCA	<p>ACCA was pleased to have the opportunity to respond to the Phase 1 consultation in March 2016, some of which has been reflected in the Agreed-in-Principle Text, to some extent. In order to provide some context to our response to the Phase 2 consultation, our Phase 1 response is attached as an Appendix. We believe more could be done to try to shape behaviours and attitudes, rather than focus on compliance with the conceptual framework (which is only a means to an end). We also remain concerned that not enough is being done to address one of the main objectives of this Safeguards project, namely to provide practical and effective guidance to SMPs.</p> <p>A broad perspective of threats and safeguards is required by the professional accountant if he or she is to address appropriately the risk of unethical behaviour. In order to achieve this, a balance must be struck – providing suggestions (ie lists of examples) while encouraging open-mindedness by emphasising that examples given are just that, and are not exhaustive lists.</p> <p>The increased clarity in drafting throughout the Code, which is one of the objectives of the structure project is not advanced by including superfluous text. For example, we believe that the outcomes from Phase 1 of that project were not intended to impose an ‘Introduction’ to every subsection of the Code.</p> <p>We are disappointed to see the inclusion of the word ‘effectively’ in the definition of ‘safeguards’ and in paragraph 120.10 A1. It adds nothing to the definition, but risks weakening the impact of safeguards. It is not unusual for the word ‘effectively’ to imply a rather casual nature, so that actions that ‘effectively reduce threats’ are not necessarily actions that were intended and designed to reduce those threats.</p>
2.	AE	<p>We welcome that most of our comments regarding Phase 1 have been accommodated in the Basis for Agreement in Principle. Nevertheless, we regret that IESBA has not taken into consideration our comment regarding the definition</p>

#	Respondent	Detailed Comment
		<p>of "acceptable level". It introduces a different concept, making it unnecessarily more stringent. Although we understand the reasoning of shifting to an affirmative approach, this amendment does not bring added value as it is not very instructive on how professional accountants would achieve the intended result. The application of "acceptable level" by professional accountants is a well-established practice and therefore Accountancy Europe does not see a need for change. We fail to understand why this approach "more clearly and directly conveys the intended meaning" of the definition "acceptable", as it is stated in the Basis for Agreement in Principle.</p> <p>We also regret the approach taken by IESBA regarding the revised description of safeguards. Introducing the concept of effectiveness in the definition of safeguard is unnecessary as, by definition, the elimination of threats must always be effective. In our view, the concept of effectiveness should not be directly related to addressing specific threats.</p> <p>We have strong concerns in relation to the reclassification of certain conditions, policies, and procedures. This adds confusion to the process and makes it more difficult for small and medium practices (SMPs) to consider how to apply the safeguards approach. As it stands now in the Basis for Agreement in Principle, these conditions, policies and procedures might only impact on the level of threat to compliance with the fundamental principles. It de facto reduces the number of available safeguards for SMPs. Overall, we believe that IESBA is proposing a very strict concept of safeguards, disregarding important practical implications, especially for SMPs.</p> <p>Regarding the provision of certain non-assurance services to related entities, it is stated in the Explanatory Memorandum that the changes to this requirement were limited to restructuring and are not intended to change the meaning of the requirement in the extant Code. Nevertheless, this restructuring emphasizes more on the fact that the related entity cannot be an audit client and this could lead to unintended consequences, such as applying Public Interest Entity (PIE) provisions to non-PIEs. This was never the intention of the extant Code and therefore IESBA should make sure that the restructuring of this requirement will not lead to such interpretations.</p> <p>We appreciate the opportunity to provide input and hope that IESBA finds our comments helpful when amending the Code.</p>
3.	AGNZ	NA
4.	AICPA	We support the IESBA's objective of setting high-quality ethics standards for professional accountants around the world and facilitating the convergence of international and national ethics standards. Overall, considering the release of this exposure

#	Respondent	Detailed Comment
		<p>draft, coupled with the exposure draft concerning the structure of the IESBA Code, we believe the amount of material exposed for comment is significant. This could lead to a low response rate or ineffective responses due to “comment fatigue.”</p> <p>Overall, we support this project and believe that it will enhance the clarity and the effectiveness of the IESBA Code. However, as noted in our response to the exposure draft concerning Phase 1 of this project, significant revisions to the conceptual framework approach in the Code could result in a substantial burden on member bodies to revise their Codes. This burden may hinder efforts to effectively converge with the IESBA Code. While the project proposal describes the project as the review of safeguards for appropriateness and effectiveness, the material in Phase 1 includes revisions to the entire Conceptual Framework approach.</p> <p>In terms of this Exposure Draft for Phase 2 of this project, we broadly support the proposals in that the majority of the edits are conforming in nature and seem appropriate. We do disagree with the proposal to extend the scope of the prohibition on recruiting services to all audit clients as noted below. We also have other commentary as noted in our responses to request for specific comment.</p>
5.	SCM	<p>The Audit Oversight Board, Malaysia (AOB) supports the continued efforts of the International Ethics Standards Board for Accountants (IESBA) to enhance understandability and usability of the Code of Ethics for Professional Accountants (the Code).</p>
6.	APESB	<p>APESB’s key recommendations for the IESBA’s consideration are:</p> <p>Safeguards 2</p> <ul style="list-style-type: none"> • amend the titles for section 600 and 950 to incorporate specific reference to Firms and Network Firms who need to consider and comply with these obligations. Further in line with this amendment, revise certain paragraphs to incorporate references to Firms and/or Network firms; • strengthen the general requirements to include the action that must be undertaken (either to comply with the conceptual framework or to address threats so they are at an acceptable level); • if the global exposure draft process does not produce any additional examples of safeguards in respect of each specific NAS, the IESBA to consider further consultations to develop additional safeguards in respect of each specific NAS; • perform a comprehensive review to ensure that requirements link back to activities that can be performed by the professional accountant in public practice rather than ensuring other parties perform the required actions;

#	Respondent	Detailed Comment
		<ul style="list-style-type: none"> • perform a comprehensive review of the factors that are relevant in evaluating the level of threats created in respect of when an audit team member is involved with the service and to remove unnecessary duplication of factors. • in respect of IT services, we believe the listed factors are broad and should be linked back to financial reporting systems and related internal controls. <p>Conforming Amendments</p> <ul style="list-style-type: none"> • review the provisions dealing with Fees to determine whether consulting with a third party is an appropriate safeguard and whether increasing the fee base to reduce dependence on a particular client is practically achievable in the short term. <p>Further information on APESB's key recommendations, other comments and specific editorial suggestions are included in Appendix A for the IESBA's consideration.</p>
7.	AAT	<p>AAT welcomes the opportunity to comment on the proposed revisions pertaining to safeguards in the Code of Ethics for Professional Accountants. AAT fully supports the direction of travel the IESBA proposes in this exposure draft, and agrees that the change of focus from “applying a safeguard” to “addressing a threat”; with requisite evaluation of effectiveness of the actions taken is the right approach to facilitate compliance with the fundamental principles. It is AAT's view that this will enhance clarity, and be more appropriate and effective than the existing approach to the conceptual framework.</p>
8.	BDO	<p>Overall, we are supportive of the proposed changes to the Code, and believe they will help to address stakeholder concerns.</p>
9.	CAANZ	<p><i>Do respondents agree with:</i></p> <p style="padding-left: 40px;"><i>(a) The proposed applicability paragraphs; and</i></p> <p style="padding-left: 40px;"><i>(b) The proposed location of those paragraphs in Sections 120 and 300 of the proposed restructured Code.</i></p> <p><i>If not, why not?</i></p> <p>We agree with the proposed amendments to the Code.</p> <p>We also recommend that the application material at proposed paragraphs 120.4 A1 and 300.5 A1 of the Code include additional guidance for when Part 2 of the Code is applicable to a professional accountant in public practice (PAPP). For example when a PAPP,</p> <ul style="list-style-type: none"> • has line management responsibilities in their firm, • has pressure applied on them by more senior members of their firm to achieve specific outcomes, or

#	Respondent	Detailed Comment
		<ul style="list-style-type: none"> is dealing with third parties as part of their role for example banks, taxation authorities or regulators.
10.	CHI	<p>Crowe Horwath International is delighted to present a comment letter on the Exposure Draft Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments. Crowe Horwath International is a leading global network of audit and advisory firms, with members in some 129 countries.</p> <p>In general, we welcome the proposals made by IESBA. The proposals are clear and in most respects make sense. We address the specific matters detailed in the IESBA’s request for comments in the appendix to this letter. We trust that our comments assist the IESBA in this project. We shall be pleased to discuss our comments further with you.</p>
11.	CNCC	<p>As a preliminary remark, we wish to complain about the lack of readability of this entire ED.</p> <p>The absence of a consolidated version of the entire section taking into account phase 1 and phase 2 of the project and the difficulty to clearly differentiate what has already been “agreed in principles” from what is still open to discussion makes the exercise of commenting this exposure draft very difficult.</p> <p>It entails a risk for the commentator of the ED to “miss a point that he/she will discover too late once the consolidated version will have been issued or, on the contrary, to comment on a point that is already closed off.</p> <p>We consider that the Board should, in the future, make its best efforts to ensure that the EDs are readable, so that all stakeholders are able to comment without having to undergo an overly complex exercise of tracing back the origin of the proposed changes. The mapping table to the proposed restructured code as of January 2017 is a good starting point to that effect.</p> <p>To illustrate our comment, we would like to point out to the example of the client's consent. It is now unclear whether obtaining the client's consent is still, in certain circumstances, an acceptable safeguard in the context of accepting an engagement where a risk of conflict of interest has been identified.</p> <p>Secondly, in the same vein, we consider that the requalification of what were previously safeguards into what are now “factors” or “conditions” creates an ambiguity about, whether, those factors and conditions may reduce the risk to an acceptable level without requiring the application of additional safeguards or, whether, factors and conditions will never do more than mitigating the risk without ever reducing it to an acceptable level, thereby always requiring additional safeguards.</p> <p>In the first case, it would simply be a change of terminology, which we perfectly understand. In the second case, it is a reduction of the possible safeguards that unduly restrict the possibility of accepting certain engagements.</p>

#	Respondent	Detailed Comment
		<p>We consider that the Code should leave open the possibility for the professional to accept the engagement when he considers, based on certain factors and conditions, the threat to be at an acceptable level, without always requiring additional safeguards.</p> <p>We would like the ED to clarify that the new definition of safeguards has not changed the substance of the code, where It was possible to consider some factors as relevant In evaluating the level of a threat as being acceptable.</p> <p>Given the principle that the redrafting of the definition of safeguards was not supposed to lead to changes in substance, we consider that the previous wording of section 290.172 which stated that: «.Performing valuation services for an audit client may create a self-review threat. The existence and significance of any threat will depend on factors such as: (...). The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level » was clear and should be reinstated.</p> <p>We consider It necessary to reintroduce the notion of the existence of a threat In all paragraphs where it previously existed in order to keep the following rationale: is there a threat? If yes, is it reduced to an acceptable level by factors and conditions of the engagement? If not can it be reduced to an acceptable level by appropriate safeguards?</p> <p>Overall, we consider that the project which was supposed to provide additional safeguards, especially for SMPs, does not do so and we would like to propose three additional safeguards:</p> <ul style="list-style-type: none"> • The client's consent/ client's information • The advice of a third party • The joint audit <p>Finally, with respect to the additional restriction put on the recruitment of directors or officers for non-pies clients, we consider It Is not relevant in the extant ED which Is supposed to deal with safeguards and not with non-assurance services (NAS). It therefore falls outside the remit of this exposure draft and should not be dealt with.</p>
12.	CPAA	<p>Overall, we support the proposed revisions to the Code of Ethics for Professional Accountants (Code) pertaining to safeguards and provide our comments for consideration below.</p>
13.	CPAC	<p>Thank you for the opportunity to provide our comments on this Exposure Draft. We noted through our profession's consultation, the considerable expectations and difficulty in consuming and responding to several exposure drafts and related documents simultaneously. Having said this, we also recognize the workload involved in the IESBA's estimated timetable to finalize a newly restructured Code for adoption in 2019. Respectfully, however, we suggest that extending longer comment</p>

#	Respondent	Detailed Comment
		<p>periods when multiple exposure drafts are issued would enhance the ability of accounting bodies to conduct meaningful consultations with stakeholders, increase efficiency and enable more thorough responses.</p> <p>Generally, we support the proposals contained in the Exposure Draft and we found an overall view through our consultation efforts that the Safeguards project was resulting in a general improvement to the Code.</p>
14.	DTT*	<p>The Explanatory Memorandum notes the purpose of the proposed revisions is to enhance the requirements for addressing threats that are created when providing non-assurance services (NAS) to audit and assurance clients, specifically Sections 600 and 950 in the re-structured Code. We are supportive of the Board's efforts to enhance these sections of the Code in order to bring a greater consistency in application of the Code as such consistency is ultimately in the public interest. The Board is taking the correct approach, but there are a number of areas that could use clarification and suggestions are offered below.</p>
15.	EFAA	<p>A survey conducted by EFAA and the Accountants Association in Poland (SKWP) revealed that accountants, auditors and tax advisors experience significant pressure to, amongst other things, manipulate financial statements. The EFAA survey "Accounting and Ethics: Pressure Experienced by the Professional Accountant" took stock of the realities facing finance professionals today. 622 European accountants, auditors and tax advisors answered the survey. 64% of respondents said they were put under pressure to act unethically or against regulations at least once in their careers. Significantly accountants value the opportunity to consult when facing pressure. We highlight this research since it may have implications for the safeguards project as well as other IESBA projects and IESBA's future strategy and work plan.</p>
16.	EYG	<p>We are pleased to comment on the Exposure Draft Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments. We continue to support the Board's continued efforts to update the Code and the development of an enhanced and more robust conceptual framework including improvement to the clarity, appropriateness and effectiveness of the safeguards in the Code.</p> <p>We agree with the Board's determination in the Basis for Agreement in principle - Phase 1 document to adopt the three step (identify, evaluate and address) approach to the conceptual framework which gives greater clarity to the approach to be adopted by Professional Accountants. Additionally, we are pleased to note that the requirement to re-evaluate threats is a now sub-heading to the section entitled "Evaluating Threats" and is not an additional stage in the conceptual framework and that the wording in the Phase 1 draft on the "Overall Assessment" has been removed.</p> <p>We support the clarifications and refinements in the Exposure Draft to explain that many of the examples of safeguards are in fact "actions that might be safeguards" to address the threat caused by providing the specific type of NAS. We understand that the overall purpose of this change is to refocus professional accountants on other actions that might be more appropriate</p>

#	Respondent	Detailed Comment
		<p>to address specific threats. We also believe that it will remind accountants that the mere application of a safeguard might not be sufficient to address a threat as the current wording in the Code may suggest. However, as noted below we believe that the word “can” rather than “might” is more appropriate in expressing the probability or possibility that a safeguard is appropriate.</p> <p>Clear and explicit statements are now included in the revised text which sets out that in certain situations the Code prohibits firms and network firms from providing certain NAS to an audit client because there can be no safeguards to address the threats to independence. We believe that such statements serve to highlight that safeguards may not in all cases be sufficient to address an independence threat. It is helpful that such statements are located in a prominent position within the introduction to each of the relevant NAS subsections.</p>
17.	FAR	NA
18.	FSR	We refer to the comments dated 21. April from Accountancy Europe.
19.	GAO	GAO has no comments on the items in the general comments request.
20.	GTI*	<p>Advocacy threats when performing tax dispute, litigation or legal services</p> <p>With respect to professional accountants assisting in the resolution of tax disputes, litigation support services, or legal services, such services can create advocacy and self-review threats to a professional accountant’s objectivity. In these circumstances under the conceptual framework approach in the extant Code, the professional accountant is required to perform an analysis of the services in order to ascertain the existence and significance of the advocacy threat. One of the criteria recommended as part of this analysis is the materiality of the amounts involved in the non-audit services or the materiality of the outcome of the dispute on the financial statements (Paragraphs R604. 16(b), 607.4 A1, third bullet point, and R608.8).</p> <p>Grant Thornton is of the position that anytime an auditor promotes or advocates on behalf of their client, the auditor’s objectivity is subsequently compromised and they have a bias in favour of advancing their client’s interests. We do not believe this bias is acceptable if the amounts involved in the litigation or dispute are immaterial. Furthermore, we believe the auditor’s compromised objectivity could impede the auditor’s responsibility to act in the public interest in these circumstances, regardless of the materiality of the amounts involved in these engagements.</p> <p>Accordingly, we are recommending the Board remove this as a consideration for determining the significance of an advocacy threat when these services are rendered to an audit client or the client’s related entities.</p>

#	Respondent	Detailed Comment
21.	HICPA	<p>The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to set and promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Exposure Draft.</p> <p>We support the proposed revisions in the Exposure Draft. In particular, we agree with the proposal and rationale to extend the scope to prohibit the provision of recruiting services to all audit clients with respect to a director, officer or senior management who are in a position to exert significant influence over the preparation of a client's accounting records or the financial statements.</p> <p>In the Appendix to this letter, we set out our detailed comments and recommendations where we believe further clarification should be made in the proposed revisions.</p>
22.	IBRACON	<p>In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:</p> <p>(a) Small and Medium Practices (SMPs) and PAIBs – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.</p> <p>No comments</p> <p>(b) Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.</p> <p>Not applicable</p> <p>(c) 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.</p> <p>No comments.</p> <p>(d) Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.</p> <p>We recommend to consider the timing of issuance of the final standard and the earliest effective date in order to determine whether it would provide a reasonable time to other jurisdictions to translate and implement the changes to the code. Historically, the process and timing of translation has been challenging to Brazil.</p>

#	Respondent	Detailed Comment
23.	ICAEW	<ol style="list-style-type: none"> 1. While we have not encountered significant issues with our members understanding the notion of the conceptual framework, we remain supportive of this project to enhance discussion in the IESBA Code of Ethics (the Code), the general approach taken, and its co-ordination with the structure and other projects. 2. We note the Board’s recognition in a number of places in the Explanatory Memorandum (EM) of the issues that SMPs face with implementing safeguards, so it is a little disappointing that the enhanced discussion in the Code fails to address that. We comment further on this in our response to question 3. 3. We set out our responses to the questions asked in the consultation paper below, and have included comments on the wording in specific paragraphs under the most relevant heading.
24.	ICAS	<p>As we intimated in our response to IESBA’s earlier Exposure Draft ‘Proposed Revisions Pertaining to Safeguards in the Code – Phase 1 Safeguards ED-1) we are supportive of:</p> <ul style="list-style-type: none"> • IESBA’s objective to improve the clarity, appropriateness, and effectiveness of the safeguards in the Code of Ethics. • IESBA’s aim of further promoting the appropriate use of the conceptual framework among all professional accountants to comply with the fundamental principles of the Code. We believe that the importance of highlighting the fundamental principles cannot be underestimated. • IESBA’s view that there are public interest benefits to be derived from an improved correlation between threats, safeguards and the fundamental principles. • a more explicit overarching requirement for all professional accountants to comply with the conceptual framework, to eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level, and are also supportive of the more extensive introduction that better explains the conceptual framework approach. • the withdrawal of the terms “safeguards created by the profession or legislation”, “safeguards in the work environment” and “safeguards implemented by the entity” from the Code. We are also supportive of the decision to restrict the definition of “safeguards” to more narrowly describe actions that the professional accountant undertakes to address threats to compliance with the fundamental principles. However, we do believe that there will be a major education exercise required to inform practitioners, particularly those in smaller firms as to the justification for the removal of such matters from the category of “safeguards”. This may also cause issues in relation to ensuring that this proposed change to the Code is translated appropriately. <p>It is essential that application of professional judgement continues to be a critical aspect of effectively applying safeguards.</p>

#	Respondent	Detailed Comment
25.	ICAP	<p>Our responses detailed by the questions contained in the ED, are presented in the appendix to this letter.</p> <p>We hope our comments are helpful to the IASB’s deliberation on the ED.</p>
26.	IDW	<p>Support for a Clear and Concise Code</p> <p>As previously expressed in our comment letter dated 21 March 2016, the IDW supports the IESBA’s Safeguards initiative. Achieving a Code that is clearer and easier to read is in the public interest, not least because it will be more suitable for impacting the behaviour of professional accountants in practice. Whilst the ED includes many requirements expressed more clearly, we also note, however, instances in the ED where proposed revisions of subsections of the extant Code mean that certain sections would become far longer and repetition introduced.</p> <p>The Link Between Non-Audit Services and the Code’s Fundamental Principles</p> <p>Under the Code’s new structure Section 600 forms part of the Independence Standard “Part 4A”. The relationship between independence and the Code’s fundamental principles is explained in paragraph 400.5, which links independence to the fundamental principles of objectivity and integrity, but not to the other fundamental principles.</p> <p>Coordination between IESBA and the IAASB</p> <p>In our comment letter dated 21 March 2016 on phase 1 of the Safeguards project we had previously expressed support for IESBA working alongside the IAASB in their project on quality control at firm level. As certain issues are common to both the Code and the ISQC 1 and certain ISAs we were disappointed to note that such coordination is not really evident. Parts of the ED remain repetitive of requirements applicable to audit firms in the IAASB’s ISQC 1 and certain ISAs.</p> <p>Extension of a Specific Prohibition from PIE-Audit Clients to All Audit Clients</p> <p>The most significant revision contemplated in phase 2 of this project concerns the proposed extension in paragraph R609.6 of a prohibition currently applicable only to audits of PIEs.</p> <p>This change would mean that audit clients – irrespective of their circumstances or degree of public interest significance – could no longer turn to their auditor for relatively routine assistance in recruiting a director or officer of the entity or senior management in a position to exert significance over the preparation of the client’s accounting records or financial statements that will be subject to audit.</p> <p>We do not believe this change is warranted in the manner proposed and refer to our response to question no. 1 in the appendix to this letter, where we explain our views on this particular issue.</p> <p>Public Expectations</p>

#	Respondent	Detailed Comment
		<p>The IAASB’s ISQC 1.21 et seq. require firms to “establish policies and procedures designed to provide the firm with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence”.</p> <p>We are concerned that the IESBA proposals may give the impression that a higher degree of precision is attainable, since when R600.4 is read in conjunction with 600.4A2 it becomes clear that the overriding requirement to determine whether a NAS would or would not create a threat applies to each and every NAS that a firm may be asked to provide; not only those specifically dealt with in subsequent subsections of section 600. There needs to be a clear acceptance that only threats above a certain threshold fall under this consideration. For example where any threat from a service is clearly trivial it would be appropriately disregarded, particularly in terms of documentation requirements. In the absence of appropriate clarification others including regulators, peer reviewers etc. will make their own demands in this area.</p> <p>Implications of Application of Technology for Service Provision by Firms</p> <p>We note that proposed 600.4A2 and 950.4A2 explain that various changes make it impossible to draw up an exhaustive list of non-assurance services in these two sections. We would, however, have expected IESBA to explicitly address issues such as the (growing) use of technology by firms who provide accounting and bookkeeping services within its Safeguards project. In a number of jurisdictions firms offer a range of accounting services using cloud-based technology. This use of technology will potentially impact a number of issues relevant to the Code, including but not necessarily limited to client confidentiality and accounting and bookkeeping services. Conceivably, safeguards could include having in place adequate data security (confidentiality) or in an area where the PPAPs professional involvement is reduced (bookkeeping automation might impact issues beyond that of a routine or mechanical nature). Of course there may be threats created too. We would encourage the IESBA to explore this further.</p>
27.	IFIAR	<ol style="list-style-type: none"> 1. The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) request for input on “Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments”. As an international organisation of independent audit oversight regulators that share the goal of serving the public interest and enhancing investor protection, IFIAR is committed to improving audit quality globally through the promotion of high-quality auditing and professional standards, as well as other pronouncements and statements. 2. The IFIAR’s objectives are as follows: <ul style="list-style-type: none"> • Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.

#	Respondent	Detailed Comment
		<ul style="list-style-type: none"> • Promoting collaboration and consistency in regulatory activity. • Initiating and leading dialogue with other policy-makers and organisations that have an interest in audit quality. • Forming common and consistent views or positions on matters of importance to its members, while taking into account the legal mandates and missions of individual members. <p>The comments we provide in this letter reflect the views expressed by many, but not necessarily all, of the members of the IFIAR. However, the comments are not intended to include, or reflect, all of the views that might be provided by individual members on behalf of their respective organisation.</p> <p>4. Where we did not comment on certain specific matters this should not be interpreted as either approval or disapproval by the IFIAR.</p> <p>5. The IESBA Code of Ethics (the Code) is used by some IFIAR members, but not by all of them. Moreover, a number of audit firms have voluntarily committed to complying with the Code. As a result, the IFIAR has an interest in enhancing the quality, clarity and enforceability of the Code.</p> <p>6. As audit regulators, we believe that the Code should be clear and enforceable and allow for audits to be performed on a consistent basis. The Code should incorporate provisions required to ensure appropriate and consistent auditor behaviour.</p> <p>7. We also believe that consideration of the public interest, including the needs of investors and other users of financial information, should drive this project.</p>
28.	IMCP	The PEC has no comments on additional Examples of Safeguards or Conforming Amendments Arising from the Safeguards Project.
29.	IOSCO	We appreciate the Board's continued efforts to examine the Code to clarify the safeguards in the non-assurance services sections therein. We see this project as an opportunity for the Board to promote a more objective and unbiased auditor mind-set as well as enhance the effectiveness and enforceability of the Code. The importance of an investor's confidence in the financial reporting process and the independent audit cannot be underestimated.

#	Respondent	Detailed Comment
		<p>We have observed an increased trend globally whereby more jurisdictions are including strict prohibitions against the performance of certain non-assurance services rather than a pure “threats and safeguards” approach. While a “bright-line” approach with respect to non-assurance services is not without its shortcomings we believe it can provide increased confidence to investors regarding the auditor’s independence both in fact and appearance, given it generally removes the self-interest bias that is more inherent in a threats and safeguards approach in this area. In light of global developments, we believe it would be appropriate and timely for the Board to engage in an effort to analyse the pros and cons of the “threats and safeguards” approach as compared to a “bright-line” approach to auditor independence with respect to non-assurance services to determine which approach is more effective in promoting the auditor’s independence and contributing to audit quality.</p>
30.	IRBA	<p>1.1. The IRBA supports the initiatives of the IESBA to improve clarity and eliminate inappropriate use of safeguards, thereby facilitating adoption, effective implementation and consistent application.</p> <p>1.2. As a regulator of registered auditors with a statutory objective to protect the public, we are concerned about the enforceability of the Code. We support initiatives that create an enabling environment for registered auditors to apply the IRBA Code and those that promote ease in understanding the IRBA Code.</p> <p>1.3. While the exposure draft on the Code has been drafted in the context of professional accountants, our responses are provided in the context of registered auditors who perform audits, reviews and provide other assurance services.</p> <p>1.4. We considered the Basis for Conclusion of Safeguards – Phase 1 and appreciate that several of our suggestions were addressed. However, a few points are worth mentioning, and these are set out below.</p> <p>Reasonable and Informed Third Party:</p> <ul style="list-style-type: none"> • Under Phase 1 of the project, we found that the reasonable and informed third party test to be confusing. The revisions have made it clear this is done from the perspective of a person who has a certain level of skills, knowledge and experience. • Additionally, the revision made it clear that the professional accountant will be performing the test (i.e. it is self-imposing), without limiting it to the lenses of a professional accountant. This wider requirement allows the Code to better serve the public interest. • While the level of skills, knowledge and experience that is expected is still unclear, these will be guided by the context and circumstances in which the test is performed. • From the consultation process, respondents indicated that certain sections in the Code may require a slightly different test. As such, in the future the Board may want to consider an investor perception test.

#	Respondent	Detailed Comment
		<p>New Information</p> <ul style="list-style-type: none"> The Board may consider redrafting paragraph 120.9 A2 as a requirement rather than application material, as a requirement is embedded therein. <p>Future Non-Assurance Services Project</p> <p>1.5. While the safeguards project has made an effort to clarify and enhance the use of safeguards, we believe that a more in-depth project is needed to enhance ethical conduct. Thus, we encourage the Board, when considering its strategy, to look at an overhaul of the independence sections, especially non-assurance services.</p> <p>1.6. We remind the IESBA that words such as “safeguards” and the wording used in the extant Code are similar to those used in various IAASB International Standards on Auditing (ISAs) . One of the consequences is the possibility of inconsistency arising between the ISAs and the revised Code. For example, the proposed amendments to the definition of safeguards will need to be reconsidered in light of:</p> <p>In ISA 260: “A22(b) Safeguards created by the Profession, legislation or regulation, safeguards within the entity and safeguards with the firm’s own system and procedure.”</p>
31.	ISCA	NA
32.	JICPA	<p>1) General Comments</p> <p>Because examples of possible safeguards are valuable and usable for applying in practice, we request as many examples as possible to be provided.</p> <p>2) Comments on Individual Matters</p> <p>The following matter as expressed in the section I.1 above is also a comment received from small and medium practices.</p> <p>With respect to the proposal to extend the scope of the prohibition on recruiting services stipulated in paragraph 26(h) of the exposure draft to all audit client entities, we expect the rationale behind will be described in the basis for conclusion, and as such, we believe the following point should be clearly described as well in addition to the background information.</p> <p>Although it is concluded in the exposure draft that safeguards are not capable of reducing the threat of self-interest or familiarity in this regard, we believe the illustrated example of the safeguard as provided in paragraph 609.4 A2 (use of professionals who are not audit team members to perform the service) can be still an applicable option. Therefore, we are of</p>

#	Respondent	Detailed Comment
		<p>the view that it is essential to clearly articulate the rationale behind concluding that such option is not acceptable and thus any safeguards are not capable of reducing those threats.</p> <p>(b) Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.</p> <p>(Comment) Not applicable.</p> <p>(c) 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.</p> <p>(Comment) Not applicable.</p> <p>(d) Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.</p> <p>(Comment) English is not the official language in Japan, thus, it is inevitable to translate the Code from English to Japanese in an understandable manner. For this reason, we pay close attention to the wording used in the Code in respect of whether it is translatable and comprehensible when translated. We therefore request the IESBA to avoid lengthy sentences and to use concise and easily understandable wording.</p> <p>We hope the comments provided above will contribute to the robust discussions at the IESBA.</p>
33.	KICPA	NA
34.	KPMG	<p>We continue to be supportive of the project and the intent to provide clarity with respect to safeguards in the Handbook of the Code of Ethics for Professional Accountants, and more specifically in regard to this Phase 2 ED. We also agree:</p> <ul style="list-style-type: none"> — that changing from “significance of a threat” to “level of a threat” will help clarify the requirements related to the evaluation of a threat and should therefore be helpful to all stakeholders; — with the Board’s position that seeking advice from another party no longer meets the revised definition of a safeguard; <p>and</p>

#	Respondent	Detailed Comment
		<p>— with the proposal to extend the prohibition on recruiting services to all audit clients. We have included additional observations in the attached Appendix for your consideration.</p>
35.	MIA	NA
36.	MICPA	N/A
37.	MNP	<p>Thank you for the opportunity to comment on the above-noted Exposure Drafts (“EDs”). We support the efforts made to strengthen the independence standards through the Code of Ethics for Professional Accountants (the “Code”). We have provided our comments to the EDs below:</p> <p>Improving the Structure of the Code of Ethics for Professional Accountants</p> <p>We do not believe that the proposals in the above-mentioned ED have resulted in any unintended changes in meaning of any of the provisions. We believe that the proposals are consistent with the key features of the restructuring with the following exceptions:</p> <ul style="list-style-type: none"> • The word “generally” should be removed from paragraph 210.8 A1 because its use implies that disclosure of a conflict of interest and the safeguards applied is optional. We believe that it is in the client’s interests to disclose any actual or perceived conflicts of interest and how the professional accountant has managed such conflicts to accept or continue the professional service. • We recommend that the word “scheme”, used in paragraph 260.20 A2 and in 360.25 A2, be defined in the guidance, as it is not a term commonly used by professional accountants and could be subject to misinterpretation. <p>Further, we agree with the proposed effective dates of the restructured Code and believe that they provide sufficient time for professional accountants to familiarize themselves with, and implement, the changes.</p> <p>Proposed Revisions Pertaining to Safeguards in the Code</p> <p>Overall, we agree with the proposed revisions to the safeguards pertaining to the provision of non-assurance services. We would, however, like to bring the following concerns to the Board’s attention:</p> <ul style="list-style-type: none"> • We do not believe that a firm or network firm should be permitted to assume management responsibilities to the related entities outlined in paragraph R600.10. The ability to control, lead or direct an entity that has control or significant influence over the assurance (i.e., audit and review) client may create a situation whereby the client’s business is impacted, negatively or

#	Respondent	Detailed Comment
		<p>positively, because of decisions made at the related entity level. We believe that the inter-relationship between an assurance client and the related entities referred to in paragraph R600.10 is too significant.</p> <ul style="list-style-type: none"> • In our view, acting as an expert witness for an assurance client creates a significant advocacy threat that cannot be appropriately mitigated when that expert witness offers opinions on the litigation matter. This is a different role than that of a fact, factual or fact-finding witness who recites the facts of the matter in litigation and the results of the litigation support services engagement. Therefore, we recommend the Board consider adding a prohibition to the Code, to disallow the provision of litigation support services for public interest entities for the purpose of advancing the entity's interest in a legal proceeding or investigation with respect to amount(s) that are material to the financial statements subject to audit or review. • Paragraph 608.4 A1 which describes the types of independence threats that may be created as a result of the provision of legal advisory services should also refer to advocacy threats. • We have concerns with the prohibition in paragraph R609.6 related to the provision of recruiting services with respect to a director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client's accounting records or financial statements. We would like to recommend that the prohibition continue to be restricted to public interest entities only as presented in the extant Code. We believe that smaller review and audit clients may not have the necessary knowledge or skill to effectively recruit candidates with the appropriate competence for financial accounting, administrative or control positions. <p>Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice</p> <p>We agree with the Board's proposal to expand the applicability of Part C of the extant Code to professional accountants in public practice. We believe that the independence provisions in the Code should apply to all professional accountants equally, if the relevant circumstances exist, despite whether they are employed in industry or public practice. We do not have any specific concerns in regards to the proposed location of the applicability paragraphs.</p> <p>We are pleased to offer our assistance to the Board in further exploring issues raised in our response and in helping to find solutions to meet the needs of all stakeholders.</p>
38.	NASBA	<p>The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments to the above referenced Exposure Draft. NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories.</p> <p>In furtherance of that objective, we offer the following comments on the Exposure Draft. We have keyed our responses to the questions as presented on pages 16-17 of the Exposure Draft.</p>

#	Respondent	Detailed Comment
39.	NBA	<p>In the Netherlands we have not implemented the Code as is, but we have extracted the requirements and have implemented them in bylaws in accordance with Dutch regulation for standard setting. Based on this exposure draft we conclude that it will not be possible for us to adopt the current structure. Part of this results from the fact that the structure still mixes requirements with application material, and therefore does not comply with the Dutch rules for writing regulation.</p> <p>We suggest in the public interest, even if IESBA decides to mix application material and requirements, to start with the requirements and afterwards provide application material. To us the current structure almost seems to focus on what is allowed and not on what is restricted.</p> <p>One of the examples of safeguards relates to an independent reviewer that was not involved with the team. We wonder whether an EQCR partner could perform this role? If that is the case it might be a good idea to make this clear.</p>
40.	NZAuASB	<p>The NZAuASB supports the proposed revisions to clarify and enhance the safeguards-related provisions in the independence section of the Code pertaining to non-assurance services provided to audit clients, as well as the safeguards-related conforming amendments to sections of the Code that were covered in Phase 1 of the Structure Project.</p> <p>Independence standards for other assurance engagements</p> <p>The NZAuASB is of the view that the provisions in the international independence standards pertaining to non-assurance services provided to assurance clients, and more generally, the provisions pertaining to independence for other assurance engagements, could be significantly more robust.</p> <p>The aim of the IESBA's structure project is to comprehensively review the structure and drafting of the IESBA Code to enhance its understandability and usability, thereby facilitating its adoption, effective implementation, consistent application, and enforcement. Within the Code, the independence requirements pertaining to the provision of non-assurance services to an assurance client are less robust than the independence requirements pertaining to audit [and review] clients. In an audit [or review] engagement, the objective of the auditor is to obtain reasonable assurance [or limited assurance]. In an other assurance engagement, the objective of the assurance practitioner is to obtain reasonable or limited assurance. Accordingly, the NZAuASB considers the framework proposed for auditors [and reviewers] is equally appropriate to other assurance practitioners. Applying the same safeguards-related provisions in the independence section of the Code pertaining to non-assurance services provided to audit clients to assurance clients will increase quality, be more consistent with other assurance standards and the expectations of the users of assurance reports, avoid confusion and streamline the Code.</p> <p>Meaning of audit engagement</p> <p>Section 600, and more generally Part 4A of the Code, applies equally to audit and review clients, however, some of the language used in Section 600 is "audit centric." For example, the discussion of materiality in relation to an audit client's</p>

#	Respondent	Detailed Comment
		<p>financial statements, specifically references ISA 320, Materiality in Planning and Performing an Audit. There is no discussion of materiality in the context of a review engagement which is equally relevant. Care needs to be taken when drafting not to use audit specific wording when referring to both audit and review engagements. The NZAuASB's preference is to refer separately to audit and review engagements rather than using the term audit engagement as short-hand. Indeed, to ensure clarity for our stakeholders this is one of the modifications the NZAuASB made when adopting the extant Code.</p> <p>Consistency of wording between IFAC standard setting boards</p> <p>In the following "Schedule of Responses to IESBA's Specific Questions" a number of inconsistencies are noted between the IAASB standards and the proposed IESBA Code. The NZAuASB encourages the IESBA to continue to work with IAASB to ensure that, where possible, consistent wording is used throughout the standards set by the IFAC standard setting boards.</p>
41.	PWC*	<p>We support the Board's project to clarify the requirements and guidance regarding safeguards in the Code and, subject only to the suggestions that we have set out in this letter, we support the proposed revisions and conforming amendments.</p> <p>In response to the specific questions that the Board raised in the ED:</p> <ol style="list-style-type: none"> 1. Subject to the detailed drafting comments in the appendix we agree with the proposals relating to Section 600 of the code (Question 1). 2. Subject to the detailed drafting comments in the appendix we agree with the proposals relating to Section 950 of the code (Question 2). 3. Subject to the comment below on paragraph 310, we do not have any further examples of actions that might be safeguards (Question 3). 4. Other than a comment on Section 310 below we do not have any further observations on conforming amendments made to Chapter 2 (Question 4). <p>Proposed paragraph 310.8 A2 include "factors" that are relevant in evaluating the level of any threats created by conflicts of interest. These include, for example, "Separating confidential information physically and electronically". We observe that these appear to be "actions that the professional accountant takes to effectively reduce threats to compliance with the fundamental principles to an effective level" and would be better placed, in line with the revised approach, in 310.8 A3 (safeguards). The factors that would need to be considered in evaluating the level of the threat appear to be more related to the circumstances mentioned in 310.4 A1. For example, where the firm has a self-interest in advising a client on acquiring a business which the firm is also interested in acquiring that is likely to be a factor in evaluating the level of threats to compliance with the fundamental principles.</p>

#	Respondent	Detailed Comment
42.	RSM*	<p>On behalf of RSM International Limited, a global network of independent accounting and consulting firms, we are pleased to respond to your Exposure Draft - Proposed Revisions Retaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments.</p> <p>We support these proposals and the objective to make the Code clearer and to aid professional accountants in applying the Conceptual Framework in their practices. The identification and assessment of threats, and design of appropriate safeguards, is vital to the maintenance of the profession’s reputation. These improvements to the Code are both welcome and necessary to make sure that it is fit for purpose for professional accountants in any environment and that it can be applied to a consistently high standard.</p>
43.	SAICA	<p>a) Small and Medium Practices (SMPs) and PAIBs – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs. Response: SAICA is of the view that there may be challenges in implementing for smaller practices although the effective date does allow for ample time to implement.</p> <p>b) Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities. Response: SAICA is of the view that improved requirements and application will assist regulators to enforce the code.</p> <p>c) 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. Response: SAICA has no further comments.</p> <p>d) Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.</p>
44.	SMPC	<p>The SMPC has followed the Safeguards project and provided comment letters for the Board and Task Force’s consideration as it has progressed over time.</p> <p>Whilst the ED includes many requirements expressed more clearly, there are also instances in the ED where proposed revisions of subsections of the extant code mean that certain sections would become invariably longer with the repetition introduced. Subsection 607 provides such an example. The Explanatory Memorandum also mentions the notion of</p>

#	Respondent	Detailed Comment
		<p>(unnecessary) repetition between the IESBA Code and ISQC 1 and ISAs. The SMPC believe that there is still material that could be streamlined or removed to reduce unnecessary duplication.</p> <p>The SMPC had hoped that the IESBA would have taken this opportunity to address concerns raised by SMPs (as noted in paragraphs 3 and 15 of the Explanatory Memorandum) more thoroughly. Indeed, the notion of independence as an enabler of objectivity as opposed to as an end in itself could have been given more thorough consideration from an SME audit/ review perspective. The circumstances and thus public interest perspectives of many SMEs may differ considerably, not only when comparing with those of larger PIEs, but even within the non-PIE sector itself such that the need for, as well as what constitutes an appropriate degree of independence (and especially independence in mind), will differ from one assignment to another. We note that the fifth bullet point of para. 600.4 A3 does acknowledge that perceptions as to the level of threat may differ depending on whether an audit client is a PIE or otherwise. However, given the wide diversity in non-PIE clients, this is an overly simplistic distinction, especially as the IESBA Code is intended for global application. Whilst the exercise of professional judgment, which by its very nature has to take into account the individual engagement type and circumstances in assessing the list of factors in 600.4 A3, may go some way to addressing this, it would be very helpful if the Code were to discuss the issue upfront and also, more extensively. As a matter of priority, we encourage the IESBA to include an explicit acknowledgment that in exercising professional judgment to determine the significance of any threat to independence (R600.4) the circumstances of the specific engagement will impact the relative weighting and interaction of such factors.</p>
45.	UKFRC	<p>The Financial Reporting Council (FRC) welcomes the opportunity to comment on the proposed changes to the Code of Ethics for Professional Accountants (the Code) pertaining to safeguards set out in the above exposure draft.</p> <p>The FRC endorses the Board's proposals to make revisions to the Code, intended to clarify the requirements pertaining to safeguards, and to provide a better definition of safeguards and clarify that certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the employing organization are not regarded as safeguards. We also strongly endorse IESBA's efforts to bring greater consistency between the terms used in the Code.</p> <p>The Phase 2 ED has been drafted in a way that reflects conclusions drawn by IESBA after considering the responses to the Phase 1 ED. We respond below to the Phase 2 specific proposals. However, having considered the explanations in the Phase 2 Explanatory Memorandum and the 'Basis for Agreement in Principle for Proposed Revisions Pertaining to Safeguards in the Code - Phase 1', we are concerned that a number of the issues and related recommendations we set out in our response to the Phase 1 ED have not been satisfactorily addressed.</p> <p>These issues continue, therefore, to be a concern in the Phase 2 ED and the wider Safeguards and Restructuring projects. In particular, the concepts of the "reasonable and informed third party" and "acceptable level", and the description of "safeguards" fall significantly short of what we proposed in our response to the Phase 1 ED. We also have continuing concerns relating to</p>

#	Respondent	Detailed Comment
		<p>the absence of clear linkage between the fundamental principles and the detailed requirements, which we will explain in our response to the Structure Phase 2 ED.</p> <p>Reasonable and informed third party (RITP)</p> <p>We are pleased that the RITP is no longer described as a “hypothetical person” and that it is explicitly made clear that such a person does not need to be an accountant. However, it is now stated that the RITP “would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant’s conclusions in an impartial manner” (emphasis added) - this maintains a risk that the third party test will still be applied from the perspective of an accountant rather than the objective lens of the public in whose interests the professional accountant has a responsibility to act. This description risks insufficient regard being given to perception issues. For example, information available to the public may give rise to a perception that an auditor’s independence is compromised, and thereby a loss of confidence in the audit.</p> <p>Accordingly, we reiterate that the third party test should reflect the anticipated views of the public in whose interests the professional accountant has a responsibility to act, assuming that they are informed about the circumstances (e.g. about the nature of the threats and the nature of any safeguards) and on the assumption that they would be reasonable (i.e. rational, fair and moderate rather than extreme) in forming those views. Being “informed” should be considered in the general sense rather than suggesting a need for specific knowledge and experience.</p> <p>We also suggest again that the reference to the third party be extended to read ‘objective, reasonable and informed third party’, which would reflect the importance of the objectivity of the third party (i.e. one not influenced by interests that would conflict with the public interest) and would also align it with the term used in the 2014 EU Audit Regulation (EU 537/2014) and Directive (2014/43/EC). While the Basis for Agreement in Principle identified that such recommendations were made by respondents (although in our case mistakenly suggesting it was intended as an alternative to “hypothetical”) it does not explain why the IESBA did not consider it appropriate. Aside from adding to the explanation of the appropriate characteristics of the third person, it would also prevent an unhelpful inconsistency with the legal requirements in the EU.</p> <p>Acceptable level</p> <p>In our response to the Phase 1 ED we supported the aim of expressing the requirement to eliminate or reduce threats “to an acceptable level” in an affirmative manner. However, as then, the continued use of the term “acceptable level” causes us concern for a number of reasons. Firstly, the term ‘acceptable’ is in plain usage a low bar – for example it is defined in Merriam-Webster’s dictionary as encompassing: “capable or worthy of being accepted”, “a compromise that is acceptable to both sides”, “welcome, pleasing” and “barely satisfactory or adequate”. It does not convey a sense of high standards and public interest. Secondly, the meaning of the term as it is used in the Code is distanced from the requirements that apply (that</p>

#	Respondent	Detailed Comment
		<p>meaning being set out in the Conceptual Framework and Glossary). As a result, reading the requirements in isolation, the professional accountant could believe it implies a bar that is at too low a level.</p> <p>We believe that the most direct and affirmative manner in which to express this bar is to include in the requirements that threats are to be eliminated or reduced “to a level at which the fundamental principles would not be compromised”. This would help ensure that the professional accountant focuses on ensuring that threats are eliminated or reduced to a level where the third party test would be passed. We believe this (implicit) link to the third party test would better accord with the expectations of stakeholders, better support their confidence in the professional accountant, and be more likely to anchor the professional accountant to those expectations when evaluating threats and safeguards.</p> <p>We disagree strongly with the revised definition in the Phase 2 ED of “acceptable level” as “a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles”. This has the effect of applying the third party test from the perspective of a professional accountant rather than from the perspective of the public in whose interests the professional accountant has a responsibility to act. We also reiterate our suggestion that it should be made clear that the third party test would only be passed when it is at least probable (i.e. more likely than not) rather than ‘likely’, that the [objective,] reasonable and informed third party would conclude that none of the fundamental principles had been compromised.</p> <p>We note that the Basis for Agreement in Principle identified that such recommendations had been given in relation to the “acceptable level” but the IESBA’s rationale for rejecting them is not clearly set out.</p> <p>Description of safeguards</p> <p>In our response to the Phase 1 ED we supported the IESBA’s proposed description of safeguards but suggested how it should be expanded to make it more effective. In relation to those suggestions we are pleased that it is now made clearer in the Phase 2 ED that a safeguard to eliminate a threat to meeting the outcomes required by the fundamental principles might include removing a professional accountant from any involvement in an engagement, or withdrawing from the engagement. However, this could be read as only addressing the possible need to remove someone from a position where they have direct involvement in an engagement. Threats can also arise in relation to someone not directly involved but nonetheless in a position where they could influence an engagement, for example someone responsible for performance appraisal and/or remuneration of a person directly involved. This is not addressed in the Basis for Agreement in Principle.</p> <p>We note that the definition of “audit team” in the Glossary includes persons who can directly influence the outcome of the audit engagement. We recommend that the descriptions of safeguards should include the possible need for restrictions to apply to someone in a position where they could influence an engagement. For example, restrictions on holding financial interests in an audit client should apply also to persons who are in a position to influence senior members of the audit team - the requirement in R510.7(c) of the Proposed Restructured Code that a direct financial interest or a material indirect financial interest in the</p>

#	Respondent	Detailed Comment
		<p>audit client shall not be held by “Any other partner in the office in which an engagement partner practices in connection with the audit engagement, or any of that other partner’s immediate family” will not necessarily cover this.</p> <p>Consistent with our comments above, we believe that the test to be passed when assessing whether a safeguard would be effective is whether an objective, reasonable and informed third party would conclude that the fundamental principles are not compromised. We believe that this should be made clear in each of the sections that establish more detailed requirements.</p>
46.	WPK	<p>Overall we think that IESBA did a great job regarding the adaption of the safeguards requirements to the new structure of the Code. The requirements are clearly separated from the application material and the introductory passages in each subsection clearly relate to the fundamental principles of the Code. In particular we welcome the increased prominence of the requirements on avoiding management responsibilities as well as the explanations on materiality and multiple Non-Assurance Services. From our point of view, these amendments contribute to an increased understandability, clarity and enforceability of the Code. Therefore we agree with the changes stipulated for in the ED.</p> <p>Nevertheless we have concerns in relation to the “re-characterization” of some former safeguards as factors. This re-characterization increases the complexity of the Code and makes it more difficult especially for SMEs to understand the application of the safeguards approach. A clear distinction between factors relevant in evaluating the level of threat and safeguards applied in order to reduce the level of threat may not always be unambiguously possible. At least the documentation effort is expected to increase.</p> <p>Furthermore we are quite uncomfortable with regard to the process of the safeguards and the related restructuring project. The division of the safeguards project into two phases, combined with the also two-phased restructuring project makes it difficult to assess the overall effect of the different changes on the Code. It is extremely challenging for respondents to assess the potential impact that these projects might have on the clarity of the Code. As we already explained in our comment letter to Safeguards Phase 1, we would have preferred a step by step approach looking at the structure of the Code first before changing the safeguards approach. The multiple cross-references from one ED to the other one and vice versa make it extremely difficult to undertake an overall assessment.</p> <p>In addition, we hear from our members that it has become increasingly difficult to keep up with the pace of changes which the Code has undergone over the previous years. The profession does urgently need time to digest the changes in order to carry out corresponding inhouse-implementation measures within their firms. The same is true for IFAC’s member organizations as most of them need to translate the changes in a first step before being able to display efforts as to how to implement the changes in their respective national laws. Particularly the latter process is usually time-consuming since it requires an involvement of the relevant stakeholders and is usually subject to an approval process by an oversight authority. When the</p>

Safeguards Phase 2 – Compilation of General Comments in Response to Safeguards ED-2
IESBA Meeting (June 2017)

#	Respondent	Detailed Comment
		<p>IESBA, e. g., needs many years for the finalization of a new standard, the stakeholders cannot be expected to implement the new standard in a fraction of the time that it needed IESBA to issue the standard.</p> <p>Even though we were glad to note during the last IESBA meeting that any changes made after the completion of the restructuring process shall not become effective before June 15, 2020, we think that this period of time should be significantly longer given the tremendous effects the safeguards and restructuring changes will bring about for the profession. The profession is currently facing such a standards overload that is in our view detrimental to the global acceptance of international standards and the audit quality as such. We agree that there is always room for improving standards. However, we doubt that the extant Code could not be regarded as a high-quality standard and would be urgently in need for further improvements. In case we were wrong in this assessment, we would ask IESBA to provide the public with corresponding evidence.</p> <p>We suggest that IESBA acts more strategically and devote more time to strategic and public interest matters instead of looking into details of the Code. We would also appreciate a shift from undertaking new changes to the Code towards increasing efforts to raise the awareness of the Code, providing separate guidance to selected emerging issues and monitoring its implementation around the world.</p>