

## PRINCIPLES/RULES – DETAILED COMMENTS

1.	Principles/Rules	<p>CGA-Canada is concerned that sections 290 and 291 are evolving towards a very rules- based approach. As section 290.8 now states:</p> <p><i>“Many different circumstances, or combination of circumstances, may be relevant in assessing independence. Accordingly, it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action. A conceptual framework that requires firms and members of audit teams to identify, evaluate and address threats to independence rather than merely comply with a set of specific rules that may be arbitrary is, therefore, in the public interest.”</i></p> <p>In our view this approach remains correct. However, the clear direction of the proposed amendments is a movement from the intended conceptual approach and in our view takes a prescriptive rules-based approach. This is not in the public interest.</p>	CGA	
2.	Principles/Rules	<p>The issues raised by the Enron and WorldCom collapses are many and varied. Poor governance, market conditions and greed may be cited as causes, as can aggressive earnings management in the face of the inability to meet revenue forecasts and declining stock prices. The key message, however, from the Enron and WorldCom debacles is the danger of prescriptive rules-based standards which encourage creative, loophole-based avoidance. The concepts of 'true and fair' and 'substance over form' are clearly what is needed, alongside a return to the traditional values of 'professional scepticism'.</p> <p>For the principles-based approach to be robust, it should not be undermined by the proliferation of detailed underlying rules. We accept that a Code containing nothing but a general discussion of principles, threats and safeguards is unlikely to completely meet the needs of the modern, complex profession and that examples of how these should be applied are necessary. However, the examples should not become prescriptive rules; the aim should be to deter auditors from 'tick-box' compliance with the form of the requirement rather than the substance.</p> <p style="text-align: right;">Cont'd</p>	ACCA	

3.	Principles/Rules	<p>We fully agree with the IESBA's objectives set out in the Explanatory Memorandum but we do not believe these are achieved. The ethical standards should seek to strike an appropriate balance between strengthening public perception of the integrity of an audit, while still enabling auditors to carry out their work efficiently and not inhibiting commercial activity i.e. they need to be proportionate.</p> <p>In attempting to benchmark the existing section 290 to a number of jurisdictions to identify matters to be reconsidered has inevitably led to additional restrictions. This exercise does not of itself, provide evidence of a need for these restrictions in an international code. A restriction may be considered necessary in one jurisdiction in light of particular set of circumstances; it does not necessarily follow that a similar restriction is appropriate in other jurisdictions.</p> <p>We do not believe, therefore, that the introducing 'blanket' prohibitions, even in circumstances where acceptable safeguards may be available, is justified either on grounds of enhancing independence or evidence of a need to restrict further the ability of businesses to have access to and obtain their professional service needs cost effectively</p> <p style="text-align: right;">Cont'd</p>	ACCA	
4.	Principles/Rules	<p>The proposed standard should serve the needs and interests of both the general user and the financial markets. As such, there are a number of matters which need to be taken into account when proposing additional prohibitions, particularly for smaller entities. For example, cost and management time is often greater when non-assurance services are obtained from a provider other than the auditor. In addition, in audits of smaller entities, the additional information acquired when providing other services enhances audit quality. As currently drafted, section 290 simply burdens audit firms, in particular small audit firms, and their clients.</p> <p>We support the IESBA's commitment to international harmonisation. However, we are concerned that IESBA may be trying to achieve this objective by benchmarking the existing section 290 to the independence requirements in a number of jurisdictions. While benchmarking analyses are useful for comparing the requirements in different jurisdictions, the results which emerge from such analysis should be used as part of a wider evidence gathering exercise rather than being as a justification for adopting the most stringent prohibitions globally.</p> <p style="text-align: right;">Cont'd</p>	ACCA	

5.	Principles/Rules	<p>In our view additional prohibitions should only be introduced if it is clear that there are significant threats and that public confidence in audit and assurance engagements is adversely affected by activities carried out in line with existing requirements.</p> <p>The confidence of investors and the public is of key importance for capital markets to operate effectively and efficiently. The interests of stakeholders, who rely on information in the public domain, must be protected. We believe that any system of regulation of the accounting and auditing profession must be transparent and proportionate, and must reflect global best practice.</p> <p>ACCA as an international body is in a unique position to comment from a global perspective. We believe global problems need global solutions. To that end we believe there should be adherence to international standards. As such standards should promote global best practice and promote the necessary harmonisation of global markets.</p>	ACCA	
6.	Principles/Rules	<p>It is also apparent that there is a clear preference for retention of the principles-based approach, which requires threats to independence to be evaluated and if possible, eliminated or reduced to an acceptable level by safeguards – failing which the particular assignment should not be undertaken.</p> <p>Such an approach in our view provides a more sturdy and resilient structure than a rules-based one for dealing with independence matters. Principles-based regulation is generally preferable and less cumbersome than attempting to address, as is the case with the current exposure draft, a range of possible circumstances dealing with independence issues. It is not clear how the benefits flowing from the proposed changes will outweigh the costs related to the additional obligations proposed. In applying the threats and safeguard approach practitioners would look to the IESBA for guidance, rather than rules.</p>	Australia	
7.	Principles/Rules	<p>We regret that the draft Code appears to depart from a threats and safeguards principles-based approach. Although the draft claims to found the revised sections on a threats and safeguards approach, the sections nevertheless contain a large number of prescriptions such that in practice they reflect a move towards a rules-based approach.</p>	Mazars	

8.	Principles/Rules	<p>The ICAS Ethics Committee welcomes this opportunity to respond to the proposed revisions to the IFAC Code of Ethics. In particular we support:...the Board's continued support for a principles-based approach although we are concerned that there are a growing number of specific restrictions. ICAS is committed to the principles-based approach as being the most robust because, inter alia, by focusing on the underlying aim rather than detailed prohibitions, the principles-based approach combines flexibility with rigour in a way that is unattainable with a rules-based approach. Whilst appreciating that there will always be a fine line in deciding where specific prohibitions require to be introduced we are concerned that the proposed Code is moving towards becoming too prescriptive.</p> <p>ICAS specifically supports the use of the principles-based approach. However, we understand the rationale and support the extension of the provisions for listed entities to entities of significant public interest. However, there is a danger that the number of additional prohibitions being introduced for listed entities and SPIEs has resulted in a move away from the principles-based approach towards a rules-based approach with the counter-productive result that what might appear to be a stronger code will actually be weaker, being complied with in form rather than spirit. Therefore, the IESBA should consider reviewing the balance of principles and rules in the Code of Ethics as well as the presentation of the Code in its future work programme.</p> <p>Cont'd</p>	ICAS	
9.	Principles/Rules	<p>We are very supportive of IESBA's commitment to international harmonisation and would welcome a position where only one robust global Code of Ethics could be applied to all professional accountants. However, we are concerned that the IESBA may be trying to achieve this objective by benchmarking the existing Section 290 to the independence requirements in a number of different jurisdictions. Whilst we appreciate the merits of undertaking benchmarking analyses, great care is required to ensure that the final output is not merely a Code which adopts the strictest requirements of different codes found in particular jurisdictions.</p>	ICAS	

10	Principles/Rules	<p>We are also concerned for a number of reasons, summarised in paragraph 10, about the direction taken by the ED in terms of the increased number of absolute prohibitions, regardless of the circumstances.</p> <p>The Institute was instrumental in the development of the principles based threats and safeguards approach some years ago, firmly believing it to be a robust but proportionate means of regulation, allowing for the almost infinite variations in circumstances that arise in practice but preventing the use of legalistic devices to avoid compliance. This approach has since been accepted as the most appropriate by a wide range of regulators and other bodies, including the Fédération des Experts Comptables Européens, the European Commission and IFAC itself. In practical operation the threats and safeguards approach is invariably accompanied by examples containing some basic prohibitions where it can clearly be seen that no safeguard could be acceptable and effective. However, there is a fine line between a comprehensive set of examples and a set of detailed prohibitions that becomes a self-contained set of regulations. Absolute rules, based on a premise that the regulator always knows best, encourage a culture of compliance by box-ticking, searching for loopholes, adding unnecessarily to cost, detracting from knowledge and thus audit quality and often obscuring the spirit behind the requirement in the first place.</p> <p style="text-align: right;">Contd</p>	ICAEW	
11	Principles/Rules	<p>We note that the explanatory memorandum ('the Memorandum') refers to a benchmarking process that has been carried out. IFAC has clearly noted that some national regulators have extra prohibitions and has picked some of these up. However, while harmonisation around generally accepted standards is good, trying to achieve this via benchmarking is not the right solution. Benchmarking does not of itself provide evidence of a need for particular restrictions in an international code, to maintain public confidence. While it is always useful to ensure that good ideas are picked up, it is unclear to us what the ultimate result of this process will be: on implementation, national regulators will justify their existence by adding new prohibitions, which IFAC will eventually benchmark into the next iteration of the Code, and so on until eventually, everything is prohibited.</p> <p style="text-align: right;">Cont'd</p>	ICAEW	
12	Principles/Rules	<p>We are pleased to see that the IESBA has maintained a stand in certain areas in the face of tighter requirements by a number of regulators, for example in maintaining the partner rotation period at seven years. When considering its forward agenda we would welcome the IESBA looking to undertake dialogue with national regulators who continue to diverge significantly from the IFAC Code. This would be of great assistance in the important drive towards harmonisation.</p>	ICAEW	

13	Principles/Rules	<p>The current Spanish Independence rules are stated in the Audit Law (law 19/1988). This law was amended in 2002 after the approval of the recommendation of the European Commission on Auditors' Independence but new provisions related to independence have not yet been developed by a regulation and they are basically rules based. Since the amendment of the Audit Law, the ICJCE has asked for a revision and for a development of the regulation in order to apply principles-based approach as the first criteria for the analysis of potential independence impairment situations. In this regard the ICJCE has promoted several actions, among them, a preliminary draft Bill to amend the audit law before the total transposition of the new 8<sup>th</sup> Directive (which should be done in 2008) and several discussions with the members of the Spanish Parliament.</p> <p>Within the above-mentioned context the ICJCE welcomes the retention of the principles-based threats and safeguards approach as the base of the revised Sections 290 and 291. We believe that there are certain aspects in the proposal that are an improvement to the existing code. However, we should note that the introduction of new absolute prohibitions in section 290 moves that section further away from the principles-based approach, fact that could have unintended consequences.</p>	ICJCE	
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14	Principles/Rules	FEE welcomes the retention of the principles-based threats and safeguards approach as the base of the revised Sections 290 and 291. As noted below, there are certain aspects of the proposed new Sections that we also welcome, as we consider them to be an improvement on the existing Code. However, we are deeply concerned that the introduction of yet more absolute prohibitions into Section 290 moves that Section further away from the principles-based approach, with a number of no doubt unintended consequences: Cont'd	FEE	
15	Principles/Rules	<ul style="list-style-type: none"> <li>FEE is committed to the principles-based approach as being the most robust because, inter alia, by focusing on the underlying aim rather than detailed prohibitions, the principles-based approach combines flexibility with rigour in a way that is unattainable with a rules-based approach. This has been recognised in Europe by the European Commission Recommendation on Independence<sup>1</sup>, which follows this approach, and the recently revised Statutory Audit Directive<sup>2</sup>, which specifically endorses the approach in Article 22. We accept that a Code containing nothing but a general discussion of principles, threats and safeguards is unlikely to completely meet the needs of the modern, complex profession and that examples of how these should be applied are necessary. We believe that the requirements now included in Section 290, particularly for the audits of entities of significant public interest, have moved too close to a rules-based approach which can encourage a tick-box compliance with the form of the requirement rather than the spirit;</li> </ul> Cont'd	FEE	

<sup>1</sup> European Commission Recommendation on Statutory Auditor's Independence in the EU: A set of Fundamental Principles, May 2002

<sup>2</sup> Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts

16	Principles/Rules	<ul style="list-style-type: none"> <li>We note from the Explanatory Memorandum accompanying the ED that the IESBA has applied benchmarking in a number of jurisdictions. This will inevitably indicate additional restrictions but does not of itself provide evidence of a need for these restrictions in an international code. The fact that a restriction is considered necessary in one jurisdiction because of particular circumstances does not necessarily indicate that it is appropriate on a global basis;</li> <li>The introduction of additional absolute prohibitions even in circumstances when acceptable safeguards could be applied does not seem justified either in terms of enhanced independence (see (a) above) or evidence of a need to restrict further the ability of businesses to have access to and obtain their professional service needs cost effectively. There are a number of matters that need to be considered when proposing additional prohibitions, particularly for smaller entities. For example, cost and management time is often greater when non-audit services are obtained from a provider other than the auditor. In addition, in audits of smaller entities, the additional information acquired when providing other services enhances audit quality.</li> </ul>	FEE	
17	Principles/Rules	<p>We have expressed concern above that the examples will be seen as a rule-book and applied in form rather than substance. The IFAC Code will be applied globally in a wide variety of circumstances and we believe that it is imperative that the purpose and context of the examples be stressed, as well as the link between independence and the principle of objectivity. Accordingly, we propose that 290.3 be put at the beginning of Section 290 and that both 290.8 and 290.100 (neither of which mention principles) be expanded to remind the user of the key requirements of the framework and how the examples derive from them</p>	FEE	



18	Principles/Rules	<p>The text of Sections 290 and 291 submitted to comments confirms the "threats and safeguards" approach which has been recognised in Europe since May 2002<sup>11</sup> and confirmed by the Eighth directive on statutory audit (Article 22), provides with clarifications and examples of practical situations which are likely to improve the previous version.</p> <p>The "CSOEC" supports this position and the split of existing section 290 into two sections</p> <p>However, and contrary to this principle, Section 290 includes a number of prohibitions, even in circumstances when appropriate safeguards could be applied; this in particular impacts on significant public interest entities and henceforth makes the "threats and safeguards" approach move too close to a rules-based approach to be complied with, which makes the text more rigid and deprives the professional accountant from exercising professional judgement.</p> <p>Prior to drawing up of the text submitted, the IESBA proceeded with a survey of ethical practices in a number of countries.</p> <p>This could lead to the introduction of additional restrictions which undoubtedly need to be applied in some jurisdictions because of particular circumstances but are not expected to form part of an international Code.</p> <p>Contrary to the spirit behind the "threats and safeguards" approach mentioned hereabove and for significant public interest entities, the text of Section 290 includes prohibitions to provide some services when the professional accountant performs or is invited to perform an assurance engagement.</p> <p>We believe that the introduction of "absolute prohibitions", even in circumstances when appropriate safeguards could be applied, is not likely to provide wider safety as regards objectivity of the professional accountants.</p> <p>In addition, those prohibitions inevitably lead to increase the costs of services requested by the entity<sup>13</sup>, especially when such services may be provided in a more efficient way by the professional having performed an assurance engagement.</p> <p>Moreover, in smaller entities, the fact of providing other than assurance services leads to improve the quality of the assurance engagement.</p> <p>We deem that the decision to introduce additional absolute prohibitions in the Code without any possible safeguard needs to be re-examined.</p>	CSOEC	
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19	Principles/Rules	The CNCC regrets that the drawing up of the draft Code seems to have moved away from the principles-based threats and safeguards approach. Although such a threats and safeguards approach is presented as the basis of the revised sections, we have noticed that these sections include more and more requirements and henceforth move closer to a rules-based approach.	CNCC	
20	Principles/Rules	While much of the proposed Code is written using the principles-based threats and safeguards approach, we note that there is an increasing number of effective “rules” within the Code. Furthermore, it is becoming increasingly difficult to determine which provisions in the Code are “requirements” as opposed to “guidance”; indeed the requirements are mixed with guidance throughout the Code of Ethics text to the extent that it is not always clear what the overriding principles are. We therefore believe that the current structure of the Code militates against a principles-based approach to a Code of Ethics because of the fact that it is difficult to differentiate requirements that must always be complied with from guidance on the application of the threats and safeguards approach.	IDW	

21	Principles/Rules	<p>In our opinion, since the Code of Ethics has to be written for worldwide application, the Code needs to be written at a high level, but also accommodate examples and application guidance where applicable. We wonder whether the International Ethics Standards Board for Accountants might like to consider whether it would be advantageous to draw on experience gained during the IAASB's clarity project. In our opinion, this would be of benefit to both auditors and regulators, since such a project would lead to a vast improvement in the structure of the Code. In this way, principles would be clearly presented in one section and examples and other guidance could be placed in an appendix or application section. The IAASB has shown that clearly differentiating the objectives of a particular group of provisions, and differentiating requirements from guidance, facilitates a principles-based process to developing standards. We take the view that the IESBA ought, once this current project has been fully completed, to seriously consider a "clarity project" to restructure the Code of Ethics into separate standards for particular issues. In this case each standard would contain a clear objective together with requirements that are clearly differentiated from application guidance. This is an appropriate solution to the principles versus rules problem.</p> <p>We would also like to point out that the Clarity Project at the IAASB is the enabling factor for the adoption of the ISAs by the EU. Clarification of the Code of Ethics along the lines of the ISAs would serve to facilitate the acceptance of the Code by regulators.</p>	IDW	
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22	Principles/Rules	<p>In 2005 the Code was considerably revised and converted to a principles-based approach. We highly appreciate the result of these efforts, especially because the principles-based approach is also supported by the EU Statutory Audit Directive (Article 22). We recognise that a very sophisticated Code like the Code of Ethics needs to include, apart from principles, threats and safeguards, examples to illustrate how its requirements are to be applied.</p> <p>Nonetheless we are concerned about the disproportion between the principles-based framework and the number of absolute prohibitions in the proposed Section 290, especially for entities of significant public interest even in cases where acceptable safeguards could be applied.</p> <p>In our point of view this might be a step backwards to a rules-based approach and the Code might become a pure catalogue of prohibitions in the eyes of the public. This might bear the risk that the users might develop the attitude that everything, which is not prohibited by the Code, is allowed. The result might be that the auditor, who considers whether to accept an engagement, might just tick-off the catalogue without deliberating the underlying principles.</p> <p>Therefore we recommend the Board to emphasise the importance of the principles-based approach by starting Section 290 with par 290.3 and to expand the presentation of the framework based on the threats- and safeguards-approach in par 290.7 to 290.9.</p>	WpK	
23	Principles/Rules	<p>NRF would especially like to emphasise FEE's observation that the introduction of yet more absolute prohibitions into section 290 moves that section further away from the principles based approach.</p>	NRF	

24	Principles/Rules	<p>We support, in principle, the proposed revised structure and believe that the separation of audit from the other assurance engagements makes the standards easier to follow. We also welcome the retention of the threats and safeguards principles. However, whilst we acknowledge that a purely principles-based code is unlikely to be sufficient, we are concerned with the increase in the number of restrictions. Additionally, we are concerned that costs associated with certain aspects of the standards as proposed, may outweigh the intended benefits.</p> <p>We note that the explanatory memorandum details the benchmarking process that has been undertaken. The result is that the code has picked up numerous restrictions deemed appropriate by regulators in local jurisdictions without any indication of their relevance to an international code, or whether they are needed in order to ensure either audit quality or public confidence. If this benchmarking process continues over a period of time, then the ultimate outcome is likely to be a move to a rules-based, rather than a principles-based code.</p>	BDO	
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25	Principles/Rules	<p>We support the IESBA's efforts to strengthen the provisions of the Code relating to auditor independence. We also favor the principles-based approach that provides a framework for defining threats to independence and identifying safeguards to eliminate those threats or reduce them to an acceptable level. This approach provides a more robust structure in our view for addressing independence issues than a set of rules that are designed to cover specific circumstances only. Consequently, we are concerned that certain provisions of the Code, if adopted as reflected in the ED, would expand the deviations from a principles-based approach without commensurate benefit, as more fully described below.</p> <p>We recognize that the public interest is best served by standards that provide sufficient guidance on matters that accountants commonly encounter in practice. Such guidance also needs to be based upon what a reasonably-informed third party would consider if independence in appearance is to be maintained. Thus, there is no doubt about the need for examples. We question though whether the ED has gone farther than is necessary.</p> <p>Given the challenges a global organization has in complying with different independence requirements depending on the jurisdiction of the audit firm, network firms, the audit client and its affiliates, we strongly support efforts to enhance the Code in a way that takes into account the more recent changes in independence standards adopted in various jurisdictions. By doing so, the likelihood of convergence with the IFAC independence standards is increased because they will be seen as high-quality and credible standards. However, convergence will only be achieved if the standards are also viewed as reasonable, comprehensive and appropriate, while at the same time protecting the public interest. We believe some of the proposed provisions have potential unintended consequences and will neither improve audit quality, promote convergence, nor protect investors and others relying on audited financial statements.</p>	DTT	
26	Principles/Rules	<p>We remain supportive of the principles-based approach adopted in the Code and are concerned that the Code is increasingly becoming more rules driven, particularly with respect to the requirement that enhanced safeguards must be applied in certain circumstances when the entity is deemed of significant public interest. We encourage the Board to maintain a principles-based approach in the Code to the extent possible. Some of our recommendations in this letter are intended to assist the Board in achieving that objective.</p>	PwC	

27	Principles/Rules	<p>As advocates of a principles-based approach to codes of ethics, we are concerned that the increased detail within these sections of the code presents a risk that the principles-based approach will be undermined by prohibitions and requirements. The examples within the code are increasingly comprehensive, with the result that the independence requirements within the code are moving towards being rules-based rather than being a conceptual framework. The focus on the use of codes to guide and direct professional conduct in a way that assists members as they seek to comply with the principles rather than just the letter of the code is a valuable objective; it would be a shame if the drive to more detail resulted in this aim being lost.</p> <p>We believe that as the Code increases in length and detail it may become less user friendly, which would make it less effective as a tool for guiding professional behaviour. There is a risk that the length of the code may discourage accountants from reading it thoroughly and make it more difficult for users to locate relevant examples within the Code for a particular situation. The style of these sections is inconsistent with the rest of the code: they are written in a much more specific way than the rest of the code. If user-friendliness is sacrificed for detail in this way, the effectiveness of the Code may become limited, particularly with regard to accountants who are not working in audit. CIMA asks the IESBA to consider whether such detail needs to be located in the code itself, or whether it might be contained in separate standards, practice manuals or similar that could flow from the code.</p>	CIMA	
28	Principles/Rules	<p>We have been a strong supporter of the IFAC conceptual approach of threats and safeguards to achieving and maintaining independence. We have found this approach very appropriate and proportionate to the variety of situations encountered by our firm. Although we agree that certain situations should clearly be prohibited as the result of a robust assessment, we are concerned that the new Exposure Draft is introducing more prohibitions and that the threats and safeguards conceptual framework is progressively replaced by much more prescriptive provisions. The Exposure Draft seems to demonstrate increasingly that the response to an independence situation is the creation of a rule, which is contradictory to the overall premises of the Code. We would encourage the IESBA to continue to support and maintain the conceptual approach as the most appropriate answer to addressing auditor's independence and ensure that professional accountants would focus on substance rather than form when assessing an independence situation. This is particularly true in relation to independence requirements on rotation and cooling-off period that are overly prescriptive for other key audit partners, could prove very onerous and have unintended consequences detrimental to audit quality and effectiveness</p>	E&Y	

29	Principles/Rules	<p>We have always been a strong advocate for the continued application of a principles-based approach, therefore we welcome the retention of this approach as the basis for the revised Sections 290 and 291.</p> <p>We do however note that there is a move to introduce a greater number of prohibitions in the revised Code. Whilst acknowledging the need for such measures in relation to listed companies we find the argument for extending them beyond this class of company less compelling.</p> <p>We would request that the IESBA, when making further revisions to the Code, consider carefully before introducing further rules and moving away from the threats and safeguards approach for the companies other than listed.</p>	CARB	
30	Principles/Rules	<p>We understand the rationale and support the extension of the provisions for listed entities to entities of significant public interest. However, we believe that the introduction of additional prohibitions has resulted in a move further away from the principles-based approach towards a rules-based approach with the counter-productive result that what might appear to be a stronger code will actually be weaker, being complied with in form rather than spirit. The IESBA should consider reviewing the balance of principles and rules in the Code of Ethics as well as the presentation of the Code in its future work programme.</p>	CCAB	
31	Principles/Rules	<p>DnR are sceptical to the increasing use of prohibitions and detailed rules as it moves the code away from the principle-based approach. The use of detailed rules may lead to the misbelief that anything that is not said to be prohibited is legal. Furthermore, when the examples in the code is being to detailed, it is more likely that a conflict will occur between the examples and national legislation.</p> <p>This is already an issue in Norway, and makes it difficult for us to translate and implement the code as is.</p> <p>For instance, the proposed Section 290.168 allows, in some circumstances, that accounting and bookkeeping services may be provided to an audit client in emergency situations or other unusual situations. According to Norwegian legislation providing such services are not allowed.</p>	DnR	



32	Principles/Rules	<p>However, in general we are somewhat sceptical of the increasing tendency to an extensive use of detailed rules that is obviously inspired by American practice. In most areas, a preparation of the Code from a principle-based approach will be far more appropriate and fully adequate. The more extensive and detailed rule-based approach should be limited to areas where it is called for or where it is considered more appropriate.</p> <p>The detailed rule-based approach may easily lead to the misunderstanding that anything that is not exactly described as illegal will be understood as legal, just as a long text with many details will become even more impossible to get an overall view of.</p> <p>It should be considered to categorize and structure the Code so that all principles appear from one part of the Code and all the detailed rules appear from a second and separate part</p>	FSR	
33	Principles/Rules	<p>The apparent focus on matters that may seldom be encountered by smaller firms discourages reference to the Code of Ethics in seeking solutions to ethical dilemmas, and the latest proposed revisions also appear to exclude these same firms from certain engagements due to the restrictive nature of the safeguards (see comments below). Secondly, when the Code of Ethics was initially revised to introduce a conceptual framework using a principles-based approach with threats and safeguards, the concept was supported as simplifying the process to identify ethical dilemmas and the steps necessary to deal with them. However, the current proposed revisions seem to be introducing “rules-based” concepts (for example, by means of absolute prohibitions as safeguards), thereby confusing some of the issues and limiting the exercise of professional judgement by professional accountants</p>	SAICA	
34	Principles/Rules	<p>The increased regulation necessarily results in an increase in rules, particularly for significant public interest entities, through prohibitions and mandatory requirements. We are concerned that a principles based code may become a rulebook which does not allow auditors the flexibility to manage their ethical challenges. Ethics should be about applying your mind to an issue and then doing the right thing rather than just following a set of rules, particularly in a professional environment. Some of our comments on the proposals that introduce prohibitions and mandatory requirements should be read in this context.</p>	IRBA	

35	Principles/Rules	<p>APESB does not believe that the introduction of these additional rules support the principles based approach of the current code. Even when complied with, it may not be known whether or not the auditor is truly independent.</p> <p>The major issue is the dual activity of assurance and non-assurance services which will always bring focus onto independence of auditors. The issue is what are the types of professional work accounting firms can do that are compatible with the role of the auditor.</p> <p>Every time a firm collapses – and it is inevitable that more will – auditor independence will be under the microscope – even with firms and auditors complying with the rules set in place.</p> <p>An option to consider is whether “Chinese walls” are required between assurance and other functions in firms which provide non assurance services to assurance clients</p>	APESB	
36	Principles/Rules	<p>We accept and support the conceptual framework underlying the approach to identify, evaluate and address threats to independence. In particular, we agree with the comment in paragraph 100.5 of the Code of Ethics which states:</p> <p><i>"A conceptual framework that requires a professional accountant to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore in the public interest."</i></p> <p>We strongly agree, as stated in paragraph 100.4 (b) of the Code of Ethics, that objectivity is a fundamental principle and that:</p> <p><i>"A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments."</i></p> <p>However, we are also of the view that independence is so fundamental to the accountancy profession that it deserves recognition as a fundamental principle in its own right - rather than being subsumed into the fundamental principle of objectivity.</p> <p>Paragraphs 290.3 and 291.3 of the Exposure Draft provide the link back to the fundamental principle of objectivity by stating that it is in the public interest and, therefore, required by this Code of Ethics that members of audit and assurance teams, firms and network firms be independent of audit and assurance clients. Cont'd</p>	CAGNZ	

37	Principles/Rules	<p>The conceptual approach is weakened by the application guidance</p> <p>Whilst we support the conceptual framework to independence, we consider that the application of the conceptual framework fails to ensure that auditors and the providers of assurance engagements are both independent and seen to be independent. In our opinion the existing guidance in Section 290 of the Code of Ethics does not establish sufficiently high standards of independence. The changes proposed in the Exposure Draft introduce some minor improvements but fail to tackle what we regard as core independence considerations. We have significant concerns about two fundamental aspects underlying the conceptual approach being:</p> <ul style="list-style-type: none"> <li>• the definition and application of "independence in appearance"; and</li> <li>• the application of safeguards.</li> </ul> <p>Both of these matters are discussed under the respective headings below.</p>	CAGNZ	
38	Principles/Rules	<p>We support the IFAC principles-based approach of threats and safeguards to identifying, evaluating and addressing independence. We believe that this approach is very appropriate and allows for an adequate balance taking into account the different situations to be faced by auditors. However, we are concerned that the new Exposure Draft is introducing more prohibitions and that the principles-based approach framework is progressively replaced by much more prescriptive provisions, which is contradictory with the overall premises of the Code. We would encourage the IESBA to continue to support and maintain the principles-based approach as the most appropriate answer to addressing auditor's independence and ensure that professional accountants would focus on substance rather than form when assessing an independence situation. This is particularly true in relation to independence requirements on rotation and cooling off period that are overly prescriptive for other key audit partners could prove very onerous and have unintended consequences detrimental to audit quality and effectiveness</p>	FACPE	

39	Principles/Rules	<p>We fully support the idea of a principle-based Code which adopts a threats and safeguards approach to determining the appropriate requirements. The Code should be a vehicle for communicating to all interested parties, in a clear and understandable way, that the profession is concerned about ethics and that it has objective, effective and straightforward rules to ensure ethical conduct. Such an approach is inherently superior to that of a rules-based one which tends to promote a tick-box/checklist compliance with the form of the requirement than the spirit.</p> <p>However, we have serious reservations about whether the proposed S290 adopts a principles-based approach. In many instances the specificity of the circumstances and the attendant requirements are such that the exercise of judgment is effectively eliminated and prescriptive rules supersede principles. For example, there are a number of outright prohibitions, especially for ESPIs, in the application section. For an SMP this often means that there are either no safeguards at all or else safeguards which are not able to be applied. This begs the question how can blanket prohibitions, or situations where there is no practical relief, be reconciled with a principles-based approach?</p> <p>We, therefore, encourage the IESBA to prioritize the redrafting of the entire Code using a similar drafting convention to that used by the IAASB on its Clarity project. The Code should set out a concise set of clearly understandable principles or objectives so that these might be communicated effectively outside the profession. The main body of the Code should clearly differentiate between what the accountant is required to do, ideally kept to a minimum, from non-binding explanatory and application material. We discuss this in more detail below.</p>	SMP	
40	Principles/Rules	<p>The SMP Committee notes that independence and audit quality sometimes conflict. A good knowledge and understanding of the business is the key to an auditor executing a high quality audit. Concerns have been expressed in recent months that partner rotation requirements in certain countries, for example the UK, may inadvertently have a negative impact on audit quality, particularly in specialized sectors, because key audit partners are removed without always having someone of sufficient experience of the industry to replace them. This problem may well be exacerbated in the context of SMP/SME and developing nations. Hence, we suggest that where there is doubt as to the ultimate impact on audit quality, it is better to avoid prescriptive rules.</p>	SMP/DNC	

41	Principles/Rules	<p>We are concerned that, when developing the Exposure Draft, insufficient recognition has been given to the intent expressed in paragraph 100.5 of the Code of Ethics that it is in the public interest that a professional accountant should identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary.</p> <p>The guidance in the Exposure Draft is both voluminous and very detailed and there is a significant risk that this material may become a set of specific rules that may be inappropriately applied by professional accountants - without a proper appreciation of the fundamental principles. It is our opinion that the conceptual framework that is used to make judgments on independence matters is not sufficiently robust (for instance, in assessing threats to "independence in appearance" and in the application of safeguards) to ensure, appropriate and consistent standards of independence are maintained. If the key matters that influence the application of the conceptual framework were clearer and unambiguous we believe that there would be less need for lengthy guidance material. This is because most facts and circumstances would be readily addressed by reference to matters of principle.</p>	CAGNZ	
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