

**IESBA Drafting Conventions  
Exposure Draft Comments**

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<b>Section I: General Comments</b>				
1.	General	We support the IESBA's efforts to review and clarify, where necessary, the requirements contained in the IFAC <i>Code of Ethics for Professional Accountants</i> (the "Code"). Throughout its history the AICPA has been deeply committed to promoting and strengthening auditor independence and ethics. Through the PEEC, the AICPA devotes significant resources to ethics activities, including evaluating existing standards, proposing new standards, and interpreting and enforcing those standards.	AICPA	General Comments
2.	General	On the whole, I find this to be a thoroughly excellent and comprehensive document. I am a Chartered Accountant in public practice and am a member of the Council of AAT, nominated by the Institute of Chartered Accountants of Scotland. When I trained (1975-1978), there was no such document available and ethics certainly formed no part of the syllabus. Having now been in practice for 23 years, I find such a document refreshing and clarifying to read. It certainly confirms many of the practices that one has adopted over the years as being "correct" although they have usually been picked up instinctively or by accepted convention.	AAT	General Comment
3.	General	As "accounting technicians" do not carry out audits, I have refrained from any detailed comment on the sections relating to "Independence", however I did find the example on oil reserves at the end of the section most useful and clarifying.	AAT	General Comment
4.	General	Never having been a "profession accountant in business", I would find it difficult to comment on this section. However, the very fact that it has been included and is clearly modelled on the section for professional accountants in public practice, is good. It is clearly correct to include such a section where in the past it may have been omitted.	AAT	General Comment

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5.	General	We believe that the proposals contained in the exposure draft enhances the objective of the IESBA to serve the public interest by setting high quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, thereby enhancing the quality and consistency of services provided by professional accountants.	ICPAS	General Comment
6.	General	The Institute of Internal Auditors (IIA) welcomes the opportunity to comment on the exposure draft of the Code of Ethics for Professional Accountants (the Code). We commend IFAC and the IESBA for establishing and maintaining fundamental principles of professional ethics for professional accountants, and continuing to enhance the clarity and understandability of the Code.	IIA	General Comment
7.	General	In conclusion, I repeat that I find this an extremely helpful document. If I have a general, overall concern it is that such a document should be equally relevant to the consumers of the services being offered as to the providers (for whom it is actually written). As a profession, we have to think of more efficient ways of getting the messages contained in this document out beyond the profession to the general public, who should be the real beneficiaries.	AAT	General Comment
8.	General	<p>ACCA supports the use of a principles-based approach to ethics for professional accountants, the advantages of which have been enumerated by many over recent years. ACCA believes that professional accountants are in a unique position because of their observance of a generally accepted international code of ethics. The influence of the ethical behaviour of accountants is felt in many circumstances, not least in counterbalancing what many regard as the root cause of the current economic turmoil often referred to as ‘the credit crunch’.</p> <p>Unethical behaviour is not constrained by rules, which instead encourage an avoidance culture. ACCA is gravely concerned, therefore, that at a time when the accountancy profession should be championing ethical behaviour, the International Ethics Standards Board for Accountants (IESBA) is proposing changes, from revised drafting conventions, that will reverse the advances in the Code over the last decade and undermine the principles-based approach to professional ethics</p>	ACCA	General Comment

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9.	General	<p>We applaud the IESBA’s work to improve clarity of the code of ethics. At the same time, we recognise the importance – as outlined in the IESBA’s ‘Strategic and operational plan 2008-2009’ – of a period of stability for the code in order for it to be implemented effectively. We are supportive of the IESBA’s intention, in the absence of urgent emerging issues, not to propose any further changes to the code before mid-2010.</p> <p>We provide several general comments on the drafting changes in section 1 below and our comments on the IESBA’s questions to commentators in section 2. Finally, we provide some comments on wording of specific paragraphs in section 3.</p>	CIMA	General Comment
10.	General	<p>We believe that the proposed amendments to the Code are to be welcomed, as they clarify the intention of the Code, and certainly assist in making the Code “read” better. However, there is a feeling that the length of the Code detracts from its usefulness and deters people from consulting it.</p>	SAICA	General Comment
11.	General	<p>We strongly support the IESBA’s initiative to enhance the clarity and understandability of the Code. We support the proposed changes in the EDs on the basis that the proposal will improve the clarity of the Code and serve the public interest.</p>	KICPA	General Comment

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12.	General	<p>The Conseil Supérieur de l'Ordre des Experts-Comptables ("CSOEC") is pleased to communicate hereby its comments on the Exposure Draft issued by the IESBA in July 2008 concerning the Drafting Conventions of the Code of Ethics for Professional Accountants. This letter includes our response on the proposed changes to the Code that are the result of the drafting conventions project and a number of specific comments on detailed paragraphs of the ED.</p> <p>The exposure draft contains proposed drafting convention changes in various provisions throughout the Code, including revised Section 290 and new Section 291, and the parts of Section 290 that contain the May 2008 proposed changes to the provisions on internal audit services and relative size of fees ;</p> <p>We should remind that, as indicate in our response in april 2007 regarding to section 290 and 291, the "CSOEC"believes essential that the future international Code of Ethics for professional accountants:</p> <ul style="list-style-type: none"> <li>- does not formally prohibit the accountancy firm which has provided services which are not management functions to an entity from performing in the future one or several assurance engagements as defined above within that entity ;</li> <li>- does not disadvantage the small and medium practices that perform assurance engagements dealing with the financial statements of public interest entities</li> </ul> <p>CSOEC comments only on the proposed changes to the Code that are the result of the drafting proposals related to :</p> <ul style="list-style-type: none"> <li>- The wording to indicate requirements ;</li> <li>- Temporary departure from a requirement in the Code ;</li> <li>- Threats (definition)"clearly insignificant" in favor of "acceptable level" ;</li> <li>- Conceptual Framework Approach in any situation that is not explicitly addressed ;</li> <li>- Others changes of wording ;</li> <li>- <b>Effective date.</b></li> </ul>	CSOEC	General Comment

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13.	General	<p>We endorse the retention of the structure and layout of the existing Code in the revised draft provided they are clearly seen to fit within the context of a principles-based code. The revised structure in the ISAs may be suited to standards largely concerned with procedure but the Code is more concerned with behaviour.</p> <p>We also agree that there needs to be an allowance for circumstances where an exception from compliance with a detailed requirement is necessary. We comment on the exception in the revised draft below but believe that in addition, the relationship between the principles and the detailed requirements needs to be considered and explained. There is a significant danger that the wording changes will be read as implying that this is now a rules-based code, which would be regrettable and counter-productive. It must be clarified that in a principles-based code, which this is meant to be, failure to follow detailed requirements must be justifiable in those circumstances where to follow the precise prohibition or mandated action would result in failure to adhere to the fundamental principles.</p> <p>The replacement of ‘clearly insignificant’ with ‘an acceptable level’ as an appropriate threshold for assessing which threats need addressing is a sensible move, which will help focus action on those actions actually needed to ensure compliance with the fundamental principles.</p>	ICAEW	General Comment, see disposition below.
14.	General	<p>RERP welcomes the opportunity to comment briefly on this exposure draft, although we have restricted ourselves to a few general points, rather than answering the specific consultation questions. We have seen the response being submitted by The Institute of Chartered Accountants in England &amp; Wales and would like to endorse this in full, particularly those items highlighted below.</p> <p>We welcome IFAC’s intention to retain the structure and layout of the existing Code and, like ICAEW, recognise that there needs to be an allowance for circumstances where an exception from compliance with a detailed requirement is necessary, but are not convinced that this is achieved by the wording currently proposed.</p> <p>We would also like generally to stress the need to avoid redrafting the substance of requirements in the guise of tidying up the language.</p>	LSCA	General Comment

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15.	General	While the Committee believes that your application of the clarity conventions has resulted in a Code that is generally consistent with the strength of the original text, there are some cases where the Code remains unclear or appears to have been weakened. Our detailed comments regarding these instances and our responses to the exposure draft's request for specific comments are included in the attached appendix. These comments have been prepared by the Committee's Accounting Task Force, which I chair. We trust that you will find these comments useful and constructive.	Basel	General Comment
16.	General	<p>The Canadian Institute of Chartered Accountants welcomes this opportunity to comment on the July 2008 Exposure Draft containing proposed revisions to enhance the clarity and understandability of the provisions of the <i>Code of Ethics for Professional Accountants</i> ('the Code'). Subject to our comments below, we believe that the Board has been successful in improving the clarity of the Code.</p> <p>We have provided our responses to the questions set out in the Exposure Draft in the body of this letter along with some issues that we identified in our review of the proposed revisions to the Code. We have also attached an appendix outlining additional comments that are more specific or editorial in nature</p>	CICA	General comment
17.	General	Overall, as stated in our submission letter dated 2 May 2007 on the IESBA December 2006 Exposure Draft on Auditor Independence, we are supportive of the current work of the IESBA which seeks to consider what revisions to auditor independence requirements might be needed given the changing environment in the past few years and that the last substantive revision to the IFAC Code of Ethics for Professional Accountants was made in November 2001.	HKICPA	General Comment

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18.	General	<p>In our comment letter of April 2007 we expressed support for IESBA’s aspiration for international harmonisation of ethical standards for accountants and we see this project as a key step in this journey. The APB will continue to monitor and provide input to IESBA’s work on improving the IFAC Code and international reaction to it.</p> <p>We acknowledge that some improvements are being made through the drafting conventions project. These changes make the IFAC Code more understandable and provide an opportunity for IFAC member bodies to be more certain when reporting on compliance with it. This will help to bring it closer to being acceptable as a set of ethical standards for use on an international basis.</p> <p>In our April 2007 response letter to the IESBA, the APB stated that there are a number of important issues relating to the international acceptability of Section 290 of the IFAC Code as part of the framework of audit regulation. The issues set out in that letter have not been completely addressed. Therefore, we do not believe that the improvements made through the independence and drafting conventions projects mean that the IFAC Code has reached a stage of development where Section 290 can be substituted for the APB Ethical Standards for Auditors (ESs) in the UK and Ireland. This view is supported by a number of our stakeholders.</p>	APB	General Comment

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19.	General	<p>Broadly, our wider concerns fall under the following headings:</p> <p><b>Language and structure of the IFAC Code.</b> While the drafting conventions project has made progress in clarifying where requirements or prohibitions are contained in the IFAC Code, this has still not achieved the same degree of certainty as the ESs, or indeed the International Auditing and Assurance Standards Board (IAASB)’s auditing standards. In particular, we believe that auditors will find it confusing that IAASB’s auditing standards and the IFAC Code use the same word (‘shall’) to denote requirements, but these are laid out and explained differently.</p> <p>We also believe more needs to be done to restructure the IFAC Code to make it easy for accountants to use and to facilitate its use as a regulatory document. The structure of the IFAC Code, addressing as it does both professional accountants in public practice and those in business, causes particular difficulties. The complexity is increased further by covering both audit and assurance services. A particular issue in this regard relates to the use of ‘client’ to refer to an entity being audited. While this may be the appropriate term for assurance and other accounting engagements, it is certainly not appropriate for audits.</p> <p>We therefore believe that there is work that should be done to improve the IFAC Code, but acknowledge that this will involve a substantial revision to the IFAC Code and would therefore be a longer term project for the IESBA.</p>	APB	General Comment, see disposition below.
20.	General	<p><b>Differences in requirements.</b> There are a number of areas in the ESs where a more rigorous standard is established than in the current draft Section 290 of the IFAC Code. These areas were reviewed by the APB as part of its recent review of the ESs and have been supported by stakeholders.</p>	APB	General Comment, see disposition below.
21.	General	<p>We support the overall revisions provided in the Exposure Draft and believe the clarification is a positive movement in assisting professional accountants to understand and comply with the Code of Ethics for Professional Accountants (the Code) and its independence provisions in a consistent manner. Such changes enhance the ability for uniform application of the Code’s fundamental principles. We agree that the proposed changes in wording, for the most part, provide better clarity and consistent compliance.</p>	BDO	General Comment

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22.	General	The Ethics Committee supports the IESBA objectives to strengthen and clarify the Code within a principles-based threats and safeguards framework. We have set out below our response to the questions posed in the consultation paper.	CARB	General Comment
23.	General	The Board has done an outstanding job of strengthening the Code over the past few years and, thereby, making it more relevant in today's ethical environment.	KPMG	General Comment
24.	General	We strongly support the Board's "drafting conventions project" which began in 2007 and the objective of enhancing the clarity and understandability of the Code. In this connection, we support identifying a requirement through the use of the word "shall", we share the view that the presentation employed by the international standards on auditing (ISA) is not appropriate for the Code, and agree with the modification to focus the application of the conceptual framework and related documentation requirements in Sections 290 and 291 on threats that are not at an acceptable level. However, we have some concerns with paragraph 100.11 and the proposed inclusion of a provision that permits a temporary departure from requirements of the Code for exceptional and unforeseen circumstances. We have more limited concerns with respect to the proposed transitional provisions. The IESBA requested comments on several areas of proposed change to the Code and presented five specific questions. We address each question individually.	EYG	General Comment, see disposition below.

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25.	General	<p>The Code is intended to follow a principles-based approach, which FEE wholly endorses. We support, therefore, the retention of the structure and layout of the existing Code in the revised draft. The revised structure in the International Standards of Auditing (ISAs) is better suited to standards largely concerned with procedure, whereas the Code is more concerned with behaviour.</p> <p>While we support the work undertaken to use more-direct language, the IESBA needs to guard against taking this too far. Directness should not result in more rules, nor should it result in the user assuming that mere compliance with the specific examples set out in the Code is sufficient.</p> <p>As well as responding to the questions asked we have set out a number of comments below on specific paragraphs of the revised draft Code.</p>	FEE	General Comment

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26.	General	<p>We are supportive of the Board’s ambition and goal of achieving international convergence of ethical standards for accountants and believe that the objective of providing greater clarity in the Code to be an important step in this direction. In general, we support the Board’s goals and recognise that the Board has deliberated extensively in seeking to respond appropriately to the circumstances addressed in the Code. In many respects, the proposed changes will clarify the Code, making it more acceptable for use on an international scale.</p> <p>Furthermore, we envisage that firms and their partners could face disciplinary action for technical violations of a requirement irrespective of whether they had complied with the fundamental principles. To address this, we strongly recommend that the Board undertake a further review of the Code to better differentiate requirements from what would more appropriately be left as guidance and to allow for the application of professional judgment in all appropriate circumstances. Our recommendations as to how this might be done are set out in Section 1 of this letter.</p> <p>In addition, because mergers and acquisitions occur frequently and are outside the control of the firm and professional accountant, we believe that it is essential that the Code contain a specific provision dealing with the independence consequences of these situations and we address this in Section 2. We set out in Section 3 our reaction to the current proposal for a “departure” provision and propose alternative solutions.</p> <p>We strongly support the fundamental principles of the Code and our comments are not intended to detract from them or reduce their potency. On the contrary, our comments are meant to ensure that the Code is workable for practitioners and can be adapted to provide them with guidance for dealing appropriately and in the public interest with any given circumstance that may arise.</p>	PwC	General Comment, see disposition below.
27.	General	<p>The Australian Joint Accounting Bodies generally support the revised wording of the <i>Code of Ethics for Professional Accountants</i> as part of the IESBA’s drafting conventions project. However, we believe that the Board may wish to consider whether Paragraph 100.11, as it is currently worded, may be perceived as being contrary to public interest, and therefore, whether it should be removed from the Code (refer specific comments below).</p>	ICAA/ CPA Aus/ NIA	General Comment, see disposition below.

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28.	General	We believe that the proposals contained in the exposure draft enhances the objective of the IESBA to serve the public interest by setting high quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, thereby enhancing the quality and consistency of services provided by professional accountants.	ICPAS	General Comment
29.	General	The IRBA supports the objectives of the International Ethics Standards Board for Accountant’s (IESBA) project to improve the drafting conventions of the Code, and our comments should therefore be read in the context of the achievement of those objectives.	IRBA	General Comment
30.	General	<p>Consistent with the IESBA’s request in the Explanatory Memorandum, we have primarily limited our comments to those proposed changes to the Code that are the result of the drafting conventions project. However, given the increasing focus on international convergence, we have also provided a few comments on the Code which are outside of the drafting conventions but that we think are important enough to call to the attention of the Board at this time. We believe the matters noted will affect the global acceptability of the Code and/or eventual progress toward greater convergence, and therefore warrant consideration by the Board now or in projects for future improvements to the Code. We also wish to point out that the added comments of this nature are not intended to be all inclusive – we did not read the Code with a view of whether this would be “an ultimately acceptable Code” but rather have only noted a limited number of items that caught our attention.</p> <p>We have organized our comments to include general and overarching comments followed by responses to the questions posed in the Explanatory Memorandum that accompanied the ED.</p> <p>This letter should be read in combination with the recent comment letter submitted to the IESBA regarding the re-exposed draft of proposed revisions to Section 290 of the Code, “Independence – Audit and Review Engagements”. For your convenience we have attached the comment letter as Appendix A, rather than repeat those comments.</p>	IOSCO	General Comment

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31.	General	Thank you for the opportunity to comment on this Exposure Draft. We recognize that some of our comments address issues and concerns that may be broader than the editing changes the Board has made to clarify the Code in its present form, i.e., the form that exists following the improvements the Board has deliberated on in the current Code improvement project. We understand that some of the comments may not be actionable until a future Code improvement project, perhaps one that could focus both on improvement and global convergence. We believe it is most helpful to make the Board aware of some of these questions and concerns at this time, so that as many areas can be addressed as possible in the first edition of a clarified Code.	IOSCO	General Comment
32.	Principles vs Rules	SAICA’s Ethics Committee expressed a concern that some of the latest proposed amendments to the Code appear to be re-introducing a “rules-based” approach to the Code which until now has essentially been a “principles-based” one. Although a combination of approaches may be appropriate in certain circumstances, the Committee cautioned against moving away from the “principles-based” approach.	SAICA	See discussion under Question 1 in Agenda Paper 3 Dec 2008
33.	Principles vs Rules	Indeed, as a result of the redrafting, it becomes increasingly evident that the Code, although requiring the professional accountant to adopt a conceptual framework-based approach, does itself contain a significant number of rules-based stipulations in parts B and C. We would like to point out that the inclusion of such stipulations is contrary to that approach, and as a result the Code becomes increasingly rules-based. In our opinion, it is questionable whether “singling out” certain potential situations and stipulating that adequate safeguards are <i>never</i> available to address specific threats and consequently the activity or relationship creating the threats must be avoided, does not demonstrate a principles-based implementation on the part of the IESBA to the conceptual framework approach; furthermore, the Code cannot cover every circumstance or situation that might be encountered in practice. Secondly, we believe that such “singling out” is unnecessary, given the fact that professional accountants, in applying the conceptual framework approach to the given situations, will have to arrive at the conclusion that the individual threats created would be so significant that no safeguards could reduce the threat to an acceptable level.	IDW	See discussion under Question 1 in Agenda Paper 3 Dec 2008

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34.	Principles vs Rules	<p>We have taken good note of the evolution of the conceptual framework section 100 and especially the reminder of the threats and safeguards approach. The CNCC has always supported this approach and considers that it is highly necessary since it gives the opportunity of both taking the professional member's judgement into account and escaping from the contingent and limited nature of a set of rules</p> <p>Although such a threats and safeguards approach is presented as the basis of the Code, we have noted in our precedent answers (independence I and II) that it includes more and more requirements and thus move closer to a rules-based approach. The use of the “shall” in the clarity project emphasizes this trend.</p>	CNCC	See discussion under Question 1 in Agenda Paper 3 Dec 2008
35.	Principles vs Rules	As well as responding to the questions asked we have set out a number of comments below on specific paragraphs of the revised draft Code. We are concerned that in a number of paragraphs the previous discussion on the interaction between the fundamental principles and the detailed requirements has been reversed. The impression is given that the principles are now intended only to fill in the gaps between the detailed requirements: this could reinforce the suggestion that the Code is now fundamentally rules-based. That would be odds with our understanding of the IESBA’s intent.	ICAEW	See discussion under Question 1 in Agenda Paper 3 Dec 2008
36.	Principles vs Rules	However, our main concern is that some of the proposed amendments suggest a change in the underlying nature of the Code from a principles-based to a rules-based approach. In common with ICAEW, we would be fundamentally opposed to such a move.	LSCA	See discussion under Question 1 in Agenda Paper 3 Dec 2008
37.	<i>Principles vs Rules</i>	In a principles-based Code, it is acceptable to have detailed requirements and/or prohibitions that flow from the principles. However, in the rare circumstances, where the detailed requirements may potentially conflict with the fundamental principle, it must be clear from the wording of the Code that, overall, the fundamental principles shall prevail.	CARB	See discussion under Question 1 in Agenda Paper 3 Dec 2008

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38.	Principles vs Rules	<p>We are concerned, therefore, that the proposed changes give the impression of moving the Code further away from the threats and safeguards approach towards a legalistic, rules-based standard. We believe the robustness of the principles-based approach is being undermined by the proliferation of detailed underlying rules.</p> <p>A principles-based code, applied properly, accommodates all circumstances and the needs of entities of all sizes. Similarly, it caters for departures from detailed requirements in cases where to follow them, would result in a failure to comply with the fundamental principles. If the principles are now intended only to fill in the gaps between the detailed requirements, this could be interpreted as having become a fundamentally rules-based code: something at odds to the initial discussion and our understanding of the IESBA's intent.</p>	FEE	See discussion under Question 1 in Agenda Paper 3 Dec 2008
39.	Principles vs Rules	We are concerned that the proposed changes from “should” to “shall” might increase the tendency of the past years for the Code to become more rules rather than principles based. We continue to support a principles-based approach, which requires a sound and reasonable professional judgement.	WpK	See discussion under Question 1 in Agenda Paper 3 Dec 2008
40.	Principles vs Rules	However, the Code has been drafted on a conceptual framework basis and there is thus a risk that changing the word “should” to “shall”, could change the code to a compliance framework. We also refer to page 5 of the Explanatory Memorandum (EM), the second sentence of paragraph 3, which raises the concern that the Code is moving towards a compliance framework. It is our understanding that the International Ethics Standards Board for Accountants (the “IESBA”) wishes to retain a conceptual framework approach in the Code in order for the professional accountant to comply with the fundamental principles.	IRBA	See discussion under Question 1 in Agenda Paper 3 Dec 2008
41.	Principles vs Rules	We are concerned, however, that “clarity” not be achieved at the expense of changing the Code's fundamental nature. Although derived from principles like the existing Code, the ED is comprised of many definitive rules; the end result is a Code that would eliminate in many respects the professional accountant's ability to apply appropriate professional judgment, does not fully take into account practical considerations, and may require a disproportionate response if a firm or professional accountant is considered to be in violation of a requirement.	PwC	See discussion under Question 1 in Agenda Paper 3 Dec 2008

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42.	Principles vs Rules	However, we would like to remind IESBA to be mindful and to strike a balance between on one hand having a principles-based approach to the Code, and on the other hand, placing to many requirements with a “shall” in the Code, as it has been reported that the tone of the Code has changed. We believe that there is a need to ensure that a balance is made in order that the Code is robust.	HKICPA	See discussion under Question 1 in Agenda Paper 3 Dec 2008
43.	Principles vs Rules	<p>We welcome the project of clarifying the drafting of the Code. Special attention should be paid to enhance a clear understanding of the Code and its requirements.</p> <p>We would like to point out that we strongly support a principles based approach rather than a rules based approach. A principles based Code accommodates all circumstances and the need of entities of all sizes. Moreover, a principles based approach is more accurate if the Code is to be applied in different jurisdictions. If the Code sets rules, the wording would be that important that it could be in some circumstances impossible to converge between local legislation and the Code.</p> <p>In that context, we think that it is important that the Board does not introduce too many requirements that could lead the Code to be considered rules based rather than principle based. It is also important that users do not conclude that compliance with the examples set in the Code is sufficient.</p>	Mazars	See discussion under Question 1 in Agenda Paper 3 Dec 2008
<p><b>Section II: Question 1 The IESBA is of the view that identifying a requirement by the use of the word “shall” clarifies the Code and appropriately brings the language in line with that adopted by the IAASB. Do you agree?</b></p>				
44.	Q1	We agree that the use of the word “shall” adds clarity to the Code and is generally consistent with how "shall" is being used by the IAASB.	AICPA	See discussion under Question 1 in Agenda Paper 3 Dec 2008
45.	Q1	Agree. This ensures consistency between the various accounting standards and codes.	Mark Shum	See above
46.	Q1	The AIA agrees with the use of the word “shall”. In general, the language used throughout is clear and unambiguous.	AIA	See above

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47.	Q1	Yes, we agree.	IDW	See above
48.	Q1	FAR SRS agrees.	FARS	See above
49.	Q1	Agree	MIA	See above
50.	Q1	SAICA’s Ethics Committee agrees. As stated above, the Code is now much easier to read	SAICA	See above
51.	Q1	We agree with the IESBA’s view, which clarifies that professional accountants are to comply with all provisions denoted by the word “shall”, unless compliance is prohibited by law or regulation or an exception is permitted by the Code.	ICPAS	See above
52.	Q1	NIVRA agrees with the IESBA that identifying a requirement by the use of the word “shall” clarifies the Code. Therefore NIVRA welcomes the proposal to change the word “should” in “shall” as in the ISAs	NIVRA	See above
53.	Q1	APESB strongly agrees with the proposal to identify a particular requirement by the consistent use of the word “ <b>shall</b> ”. While we believe that the change in terminology, as applied and proposed throughout the exposure draft, does not change the spirit of the requirements contained in the existing Code, we do believe the use of the word “ <b>shall</b> ” will clarify any potential misunderstandings of the requirements of the Code and has the additional benefit of terminological consistencies with the IAASB.	APESB	See above
54.	Q1	We agree that that using the word “shall” brings uniformity and better understanding with the intent of the Code and reduces the ambiguity present when using the verb “should”. We also agree the elimination of the word “may” in the context of the existence of <i>threats</i> removes the risk of noncompliance in situations that always result in threats and require evaluation. We also concur that the elimination of “may create” and “should” in Paragraphs 290.103-110 exemplifies the clear understanding of the absolute prohibition for various individuals holding a financial interest in the audit client, or appropriate related entities.	BDO	See above

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55.	Q1	We agree that the use of the word "shall" to communicate a requirement is clearer and more direct than the variety of ways the Code previously covered such matters. This helpfully brings the language in line with that adopted by the IAASB. However, we note that the Board has not applied these terms consistently. Refer to <i>Inconsistent Use of Shall</i> section above for further comments.	IOSCO	See above
56.	Q1	<p>The change from 'should' to 'shall' is acceptable within the context of a principles-based code. It is not of itself of particular consequence: it is what that is considered to mean, and whether this represents a change in the underlying aim of the Code, that matters. In implementing the IFAC Code in 2006, the Institute found it useful to clarify the intent behind the word 'should', by noting "A professional accountant should also follow the requirements in the illustrations, including prohibitions or mandatory actions, where circumstances are the same as, or analogous to, those addressed by those illustrations. Failure to follow such guidance may be justified in those rare circumstances where to follow a precise prohibition or mandated action would result in failure to adhere to the fundamental principles."</p> <p>The key issue is therefore in what circumstances the guidance need not be followed, which is addresses in question 3 below.</p>	ICAEW	See above
57.	Q1	However, in order to support the Code in becoming more robust and to limit the opportunities for flexible interpretations by the professional accountants, we support the change from "should" to "shall" provided paragraph 100.11 will be drafted in a way which stresses the prominence to the overall principles. For details please see further comments to particular paragraphs below.	WpK	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
58.	Q1	<p>Following the International Auditing and Assurance Standards Board’s project to clarify its standards we appreciate the reasons as to why the IESBA has undertaken this exercise.</p> <p>In general terms we are satisfied with the approach taken to the proposed changes to the Code but we must caution that the overriding premise has to be that the Code’s overarching principles must prevail. Although we would only envisage such a situation on a very rare occasion the possibility does exist that there could be a conflict between the detailed provisions of the Code and the overarching principles. In such occasions the principles must prevail and wording is required to make it clear that such an override does exist.</p>	ICAS	See above
59.	Q1	We are content with the change.	CARB	See above
60.	Q1	I agree	RM	See above
61.	Q1	We find the Code of high quality and believe it contains valuable guidance for the user. We agree with the view of the IESBA that identifying requirements of the Code with the word “shall” provides clarity and more consistency with the ISAs.	IIA	See above
62.	Q1	Although it is difficult to express the difference between “shall” and “should” in Japanese, we understand that identifying a requirement by the use of the word “shall” would clarify the requirements of the Code.	JICPA	See above
63.	Q1	We understand that the IESBA has reviewed the Code to identify provisions that are intended to convey requirements and has re-written these requirements by using the word “shall”. In general, we agree with the approach. However, we would like to remind IESBA to be mindful and to strike a balance between on one hand having a principles-based approach to the Code, and on the other hand, placing too many requirements with a “shall” in the Code, as it has been reported that the tone of the Code has changed. We believe that there is a need to ensure that a balance is made in order that the Code is robust.	HKCIPA	See above
64.	Q1	We believe that identifying a requirement by the use of the word “shall” is appropriate.	CICPA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
65.	Q1	<p>We support the drafting convention change from “should” to “shall” in the Code as we believe it enables an overall strengthening of the Code and furthers efforts towards convergence. The use of “should” implies a greater degree of discretion than the use of “shall”. Accordingly, the use of “shall” enhances the clarity and understandability of the Code as it removes a degree of discretion that we do not believe was intended by the Code. Whereas there is a range of interpretations for “should”, the meaning of “shall” is unambiguous. The use of “shall” also aligns the language in the Code with that adopted by the International Auditing and Assurance Standards Board’s (IAASB) in the ISAs which identifies requirements with the word “shall.” If the IESBA were not to adopt “shall”, it would send a strong message that "should" is not equivalent to "shall" and could result in widely differing applications such that the requirements of the Code could be seriously undermined.</p> <p>In many countries, such as France, Germany, Italy and Spain, the Code has already been translated using the local language equivalent of “shall.” If the IESBA were not to adopt “shall” but remain with “should”, regulators in those countries would likely reject a change to their existing Codes because it weakens these Codes and, on the other hand, could argue that the English-language Code is no longer equivalent to their translated Code. This could represent an obstacle to convergence.</p>	EYG	See above
66.	Q1	<p>We agree that the use of the word “shall” does clarify the requirements of the Code and, furthermore, is likely to more readily facilitate accurate translation of the requirements of the Code into other languages. We also welcome any steps to eliminate unnecessary inconsistencies in language, tone or approach between the various standard setters, which we feel can only be beneficial for the standing and reputation of the profession generally. For these reasons, we believe that the proposed use of the word “shall” appropriately brings the language used in the Code in line with that adopted by the IAASB.</p>	RSM	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
67.	Q1	We agree that for some practitioners the use of the word “shall” clarifies the intended meaning of the Code. While we acknowledge that some will interpret this as evidence of moving away from a principles-based code, we believe it does have the merit of demonstrating with more clarity the full force of the Code and, therefore, making it more acceptable to regulators and standards setters. In our view, the most important consideration at this stage, following in particular the extensive consultation that has occurred on the independence section of the Code, is that the Code should be seen as sufficiently robust by national and international regulators to provide them with sufficient confidence to adopt the Code within their own jurisdictions. We believe it is in everyone’s interests that independence standards converge internationally and we see the drafting conventions project as an important part of the means to facilitate convergence in due course.	KPMG	See above
68.	Q1	The Committee concurs that use of the word “shall” clarifies the Code and brings the language in line with that adopted by the International Auditing and Assurance Standards Board (IAASB).	VSCPA	See above
69.	Q1	We agree that the word “shall” serves to clarify the Code when referring to requirements. However, the draft text does not consistently identify requirements by using the word “shall.” For example, paragraph 100.5 includes the phrase “A professional accountant is required to comply with” rather than “A professional accountant shall comply with”. We suggest the IESBA review the Code and refer to all requirements by using the term “shall.”	Basel	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
70.	Q1	<p>We agree with the replacement of the word ‘should’ with the word ‘shall’ for the following reasons:</p> <ul style="list-style-type: none"> <li>• It indicates a requirement and not an option. It makes it clear that in order to abide by the Code this has to be followed rather than merely considered.</li> <li>• It is in line with the wording used in other guidance for accountants such as the ISAs and thus the common language makes it easier for accountants to follow it and apply it.</li> <li>• The enhanced clarity is evident immediately once you read the revised Code. It is very helpful that this exposure draft includes a version which highlights the changes made, as one can see the old version alongside the revised version and understand the changes made.</li> </ul>	ICPAC	See above
71.	Q1	<p>The Joint Accounting Bodies agree that identifying a requirement by the use of the word “shall” clarifies the Code, and appropriately brings it into line with the language adopted by IAASB. We believe that the Code still presents as a principles-based document utilising a conceptual framework, which does not diminish the accountant’s need to exercise professional judgement.</p>	ICAA/ CPA Aus/ NIA	See above
72.	Q1	<p>We agree with the use of the word “shall” to identify a requirement if the objective of the IESBA was to align the language of the Code with the International Standards on Auditing (ISAs).</p>	IRBA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
73.	Q1	<p>We agree with the use of the word “shall” in place of “should” because we believe that this proposed change is in line with the clarity project as it helps to identify the requirements more clearly.</p> <p>We also think that providing explanation about the meaning of “shall” is a good thing and will help with the translations.</p> <p>But, while we support the work undertaken to use more direct language, the IESBA needs to guard against taking this too far. Directness should not result in more rules, nor should it result in the user assuming that mere compliance with the specific examples set out in the Code is sufficient.</p> <p>And with the change proposed here, this emphasizes the multiplication of requirements which is a matter of concern as explained above. This is the reason why the CNCC draws attention about the fact that IESBA should be aware of not using “shall” too often when revising the Code in the future (revision of section 220 for example).</p>	CNCC	See above
74.	Q1	<p>Grant Thornton International is supportive of ensuring that the Code is clear and understandable. We believe using the term “shall” does help reinforce the applicability of the Code for significant independence threats where safeguards are needed to bring the threat to an acceptable level or where the Board has concluded that no safeguards can sufficiently mitigate a threat. We do, however, believe that in certain instances the use of “shall” conveys a rules based approach instead of the desired principle based. We recommend the following sections be reviewed further in order to determine whether “shall” is appropriate:</p> <p>[Paragraphs 100.19, 140.4, 200.10, 250.2, 290.124(a), 290.231, 300.17 – see paragraph by paragraph section below]</p>	GTI	See above
75.	Q1	<p>We agree but we have included more detailed comments on a number of paragraphs below which we believe should be considered in conjunction with the change from ‘should’ to ‘shall’</p>	CSOEC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
76.	Q1	We agree but we have included more detailed comments on a number of paragraphs below which we believe should be considered in conjunction with the change from 'should' to 'shall'.	FEE	See above
77.	Q1	We agree in general with the move to 'shall' instead of 'should' in the code. However, from an English language point of view the use of 'shall' in the description of the fundamental principles in Section 100.5 sounds slightly awkward. In certain situations compliance with a principle might constitute a breach of the law and so the law would override compliance with the principle. An example would be where money laundering is suspected. The accountant might have to breach 'integrity' by not being straightforward or honest with the client in order to avoid committing the legal offence of tipping off. For this reason 'should' seems a more appropriate way to describe the fundamental principles. However, we reiterate that we are generally comfortable with the use of 'shall' in the code	CIMA	See above
78.	Q1	We agree with the revisions which identify a requirement by the use of the word "shall" in place of "should", with the exception noted below. In general, we believe that the proposed revisions add clarity and rigour to the Code. However, we have concerns related to enforceability which are set out below. [Paragraph 100.5 – discussed below]	CICA	See above
79.	Q1	<p>In a principles-based code, compliance with the underlying principles must be the ultimate aim of all the detailed requirements. It should also be explicitly recognised that, on rare occasions, the particular circumstances mean that following the specific requirement would actually fail to comply with the fundamental principle. In common with ICAEW, we are not convinced that the exception in the Code as drafted makes this sufficiently clear.</p> <p>We are also somewhat concerned by the substitution of 'shall' for 'should', which, depending on the context, can suggest an absolute requirement for observance, rather than the course to be followed in normal circumstances. We therefore believe that further clarification of the intent behind the word 'should' is needed. As already mentioned, the key issue is in what circumstances the guidance need not be followed.</p>	LSCA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
80.	Q1	<p>We recognize that in order to achieve the goal of convergence, which is an objective of IFAC and the IESBA, the Code has to be seen as robust. We acknowledge that the use of the word “should” appears to some as leaving too much discretion or “wobble room.” However, we also are of the view that the Code is based on a conceptual framework that provides for the evaluation of particular facts and circumstances to assess the threats to compliance with the fundamental principles and the application of safeguards to eliminate the threats or reduce them to an acceptable level. A principles-based approach, such as that used in the Code, depends on the use of sound and reasonable professional judgment. This notion often gets lost with the changes to “shall” since the “tone” of the Code has changed.</p> <p>We do appreciate that there is a balancing here that is required, i.e., a robust Code that does not provide too much flexibility on the part of the accountant. Therefore, we are not suggesting that we revert to “should” or use another word, such as “must” in lieu of “shall”; rather, the concern we have may be sufficiently mitigated by revising various paragraphs in the ED, including paragraph 100.11, as described below.</p>	DTT	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
81.	Q1	<p>We support the clarification of the Code by the use of the word ‘shall’ to indicate when there is a requirement. However, we would note two caveats to our support for the approach proposed by the IESBA.</p> <p>(a) The approach of rewriting the Code to use the word ‘shall’ to indicate when there is a requirement in the Code has, as far as we can see, not been undertaken in a comprehensive and consistent manner. There are various instances in the Code where we would understand that there is a requirement, - e.g. when the phrase ‘is required’ is used – but the word ‘shall’ is not used in the text. We would understand that these paragraphs create a requirement, and therefore there should be a ‘shall’ in the paragraph. This could lead to a lack of clarity about what is a requirement and also could hinder appropriate translation. Examples where ‘shall’ has not been used, but there still seems to be a requirement, are as follows:</p> <ul style="list-style-type: none"> <li>a. Para 100.5 ‘A professional accountant is required to comply with the following.....’</li> <li>b. Para 130.1 ‘The principle of professional competence and due care imposes the following....’</li> <li>c. Para 280.2 ‘A professional accountant...is required to</li> <li>d. Para 290.4 ‘Compliance with the fundamental principle of objectivity requires...’</li> </ul> <p>We suggest that the IESBA review the whole of the Code to ensure that ‘shall’ has been used in all circumstances where a requirement is identified.</p> <p>(b) Reading through the Code it is not always immediately clear where the requirements are noted. IESBA may want to give consideration to highlighting the word ‘shall’ when it is used in a paragraph to identify a requirement.</p>	CEBS	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
82.	Q1	<p>We agree that identifying a requirement by the use of the word ‘shall’ helps but as described above, we believe that auditors will find it confusing that IAASB’s auditing standards and the IFAC Code both use the same word ‘shall’ to denote requirements, but these are laid out and explained differently.</p> <p><u>Ensuring that all requirements contain the word ‘shall’</u></p> <p>The explanation of the use of the word ‘shall’ in paragraph 100.4 clearly suggests that this word denotes the provisions of the IFAC Code with which compliance is required. However, there are a number of instances where a requirement is not accompanied by the use of the word ‘shall’. Examples we have identified are set out in an Appendix to this letter. We understand IESBA to have decided not to redraft a requirement to contain the word ‘shall’ if the requirement is already clear from the existing drafting. We question whether this is an appropriate approach - use of the word ‘shall’ is an important signal and we believe that it should be used for all requirements in the IFAC Code.</p> <p><u>Ensuring that only requirements use the word ‘shall’</u></p> <p>There are other instances where the use of the word ‘shall’ does not indicate a requirement, but rather provides a detailed explanation of a definition (for example, paragraph 290.101). We believe it would be better to do this in a way that avoids use of the word ‘shall’.</p>	APB	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
83.	Q1	<p><u><i>Eliminating the use of the word ‘shall’ where a generic threats and safeguards approach is required</i></u></p> <p>There are over 250 requirements in the draft IFAC Code, of which approximately 100 (40%) relate to repetition of the generic requirement to apply the threats and safeguards approach. These are written out with the full construction of the relevant text being included (for example, paragraph 260.3). This leads to a large number of instances where the word ‘shall’ is used but there are no specific additional requirements or prohibitions. This means that those requirements which do constitute a specific application of the threats and safeguards approach (for example, paragraph 291.122) become lost in the volume of requirements.</p> <p>It could also lead to concerns being expressed by IESBA stakeholders that the IFAC Code is moving towards a more rules-based approach when this is not actually the case. We suggest that IESBA reconsiders this approach and, as far as possible, removes unnecessary wording, so making the text clearer and easier to understand.</p> <p><u><i>Helping users identify the requirements</i></u></p> <p>It is not very clear in the text where a requirement is included, since the word ‘shall’ often appears at the end of a paragraph after associated explanatory text and there is often more than one requirement in each paragraph. This is a different convention to that used in the International Accounting Education Standards Board’s standards and IAASB’s pre-Clarity ISAs, where generally the requirement is stated first in bold text and is followed by explanatory material in separate paragraphs.</p>	APB	See above
84.	Q1	<p>We are content with the change provided it is clearly within the context of a principles based code. In such a code, which the Code is asserted to be, the starting point must be that the point of the detailed requirements is to apply the principles. The principles must always prevail. It must be made clear that compliance with the detail is a secondary matter. The key issue is therefore what ‘shall’ means in terms of when the detailed provisions need, or need not, be applied. We comment further on that under question 3</p>	CCAB	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
85.	Q1	<p>We agree with the Board that the use of “shall” more clearly denotes that something is a requirement than “should” and we understand that the Board intends, through its use of clear mandatory language, to raise the level of confidence in, and regulatory support for, the ethical standards which professional accountants must respect. We do not believe, however, that the Board has satisfactorily addressed the consequences that flow from its wholesale change to “shall”, nor do we believe the ED, as it currently stands, is clear, unequivocal, and capable of straightforward implementation.</p> <p>1) The nature of the Code The use of “shall” throughout the Code has fundamentally changed the Code's nature. The Code was originally developed as a “Code” – with fundamental principles and guidance as to how to apply them. By replacing “should” with “shall” throughout, and eliminating the concept of ‘examples’ (as expressed in paragraph 290.100 of the existing Code), the ED has turned material that was previously guidance into requirements. The result is essentially a “rule book”, given the definition of “shall” in paragraph 100.4, instead of a principles-based Code. The ED’s use of “shall” has not only changed the Code's tone, but has also multiplied the number of specific requirements to which accountants and firms are subject. The ED uses “shall” on more than 350 occasions, with, for example, paragraph 290.116 alone using it eight times. The ED’s adoption of so many “requirements” eliminates in many areas the accountant’s ability to apply appropriate professional judgment. This result is inconsistent with the conceptual framework approach explained in paragraphs 100.1 to 100.3, which requires, inter alia, that “professional accountants shall use professional judgment in applying the conceptual framework”.</p> <p>In taking this approach, the IESBA has gone substantially further than the IAASB did in its revision of the ISAs. The ISAs comprise objectives and requirements, accompanied by application and other explanatory material. The ISAs use “shall” only for requirements. The ED is consistent with the ISAs in that it uses “shall” to denote a requirement, but its removal of all “shoulds” (bar one) is not; unlike the ISAs, the ED has elevated almost every provision to a requirement and thereby eliminated the Code’s complementary application material.</p> <p style="text-align: right;">Cont’d</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
86.	Q1	<p><b>Recommendation:</b> We believe the ED would be significantly improved, as well as consistent with the ISAs, if it were restructured to include the fundamental principles, requirements and guidance. The mandatory “shall” should be reserved only for the principles and requirements; guidance (including examples), in contrast, would use “should” or “may.” A redraft along these lines would also ensure that “requirements” are limited and clearly differentiated.<sup>1</sup></p> <p>Examples of how this might be achieved are provided in Appendix 1.</p> <p><b>2) The need to retain professional judgement</b> By using the word “shall,” the ED implies that any violation of any requirement will, by definition, in the context of Section 290, impair the auditor’s independence, render the firm unable to sign the assurance opinion, and thereby force the firm to resign.<sup>2</sup> In certain circumstances, requiring accountants and firms to resign for technical breaches could be a disproportionate response and contrary to the public interest – for example in large and complex audits where it would be difficult for another firm to be appointed at short notice.</p> <p>In the area of auditor independence in particular we believe that there is an unsatisfactory disconnect between the specific requirements of Section 290/291 and the fundamental principle of ‘objectivity’. That is, we do not believe that a professional accountant's or firm's failure to follow one or more individual requirements in those sections necessarily means in all circumstances that the professional accountant's objectivity will be impaired.</p> <p>For example, our analysis of Section 290 of the Code indicates that there are several provisions (e.g. 290.230) [key partner shall not be evaluated or compensated based on partner’s success in selling non-assurance services to partner’s audit clients] that do not include any ‘materiality’ threshold and therefore, any breach - regardless of how technical or immaterial and which would not fall to be “inadvertent” - would require the firm to resign as auditor, even if the firm's objectivity has not been impaired, and resignation would therefore be a disproportionate response. Cont’d</p>	PwC	See above

<sup>1</sup> We also note that there are paragraphs in the Code in that the Board likely intends to be requirements but where the ED does not use the “shall” language (e.g., paragraphs 140.1, 150.1, 280.2). As these paragraphs do not use “shall”, under normal construction and interpretation principles, they may be interpreted to be discretionary rather than mandatory. If the same meaning is intended, the same language should, arguably, be used.

<sup>2</sup> The only exceptions are inadvertent violations (see 100.10 and others) or a violation that occurs in ‘rare and unusual’ circumstances (see 100.11).

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
87.	Q1	<p>We also believe there are several situations where the ED inappropriately dismisses the availability of safeguards to remedy a situation. By way of example Section 290.231 of the ED states:</p> <p style="padding-left: 40px;">“Accepting gifts or hospitality from an audit client may create self-interest and familiarity threats. If a firm or a member of the audit team accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Consequently, a firm or a member of the audit team shall not accept such gifts or hospitality.”</p> <p>This provision has the effect that if a member of the engagement team accepts a gift that is deemed other than ‘trivial’ (something which is undefined and may differ depending on cultural influences), the firm is not independent, is in breach of the Code and has to resign as auditor. Contrary to the provision’s assumption, we believe this situation could be resolved through safeguards (such as removal of the individual from the team and/or independent review of their work) to ensure that independence and ultimately objectivity are not impaired. Even if the violation was inadvertent, the construct of this provision does not allow safeguards to be applied.</p> <p><b>Recommendation:</b> We believe the Code should be modified to permit and require the professional accountant to exercise professional judgement in determining how to comply with the fundamental principles and the various specific provisions of the Code. Even though the introductory sections of the ED state that the professional accountant is expected to use his professional judgement, various specific provisions of the Code foreclose the use of professional judgement by either stating that no adequate safeguards exist in certain circumstances or requiring the professional accountant to take certain actions (i.e., resign) without regard to whether the fundamental principles (e.g. the accountant’s objectivity) has been compromised. Whilst we acknowledge that there will be circumstances in which no safeguards will be adequate, we believe it is important that all such provisions are reviewed and revised to allow for the adoption of safeguards where possible.</p> <p style="text-align: right;">Cont’d</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
88.	Q1	<p>Further, instead of mandating a certain action in all circumstances, it would be preferable to reintroduce the exercise of professional judgment by changing the standard included in several provisions from objective to subjective – that is, requiring the accountant to take a specific course of action if he or she determines it to be necessary in the circumstances. For example, Paragraph 210.4 states:</p> <p style="text-align: center;"><i>Where it is not possible to reduce the threats to an acceptable level, the professional accountant in public practice shall decline to enter into the client relationship.</i></p> <p>By inserting the phrase “the professional accountant has determined that” after “where” and before “it is not possible” the standard can be changed from objective to subjective; in other words, the accountant must exercise his judgement and must take a certain course of action if his judgement leads him to reach a particular conclusion. Professional judgement should be appropriately reintroduced into other provisions through similar editorial changes. Such changes would be consistent with the framework described in paragraph 100.2.</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
89.	Q1	<p><b>3) Rules require greater precision</b></p> <p>We believe that the change to a more rules-based approach makes clarity even more important. If there is a requirement for a practitioner to act in a specific way then he needs to understand what the boundaries for doing so are. Specifically, for each requirement it should be clear what the triggering event is, who is responsible for forming conclusions and taking action, and what actions are to be taken and when. This is not a trivial issue – sooner or later firms and their partners will face disciplinary action on the basis of these requirements and audit clients may find it necessary to replace their auditors at short notice. To illustrate, take the following provision:</p> <p><i>“290.142: The lending of staff by a firm to an audit client may create a self-review threat. Such assistance may be given, but only for a short period of time and the firm’s personnel shall not be involved in:</i></p> <ul style="list-style-type: none"> <li>• <i>Providing non-assurance services that would not be permitted under this section; or</i></li> <li>• <i>Assuming management responsibilities.</i></li> </ul> <p><i>In all circumstances, the audit client shall be responsible for directing and supervising the activities of the loaned staff.”</i></p> <p>Now that this provision has been changed to a strict requirement, the following questions might arise in practice:</p> <ul style="list-style-type: none"> <li>• What is a short period of time?</li> <li>• What is the consequence of a breach of this requirement - if the contract between audit firm and client governing the staff assignment stipulates that the assignee shall not be involved in these activities, but subsequently (acting under the client's direction and supervision) the assignee does in fact get involved in them ?</li> <li>• Who determines whether the audit client is in fact responsible for directing and supervising the assignee - is this a question of legal responsibility for the consequences of their actions?</li> </ul> <p style="text-align: right;">Cont’d</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
90.	Q1	<p>To illustrate further, similar questions arise with the paragraph 290.212:  <i>“290.212: Acting in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion would create advocacy and self-review threats so significant that no safeguards could reduce the threat to an acceptable level. Therefore, the firm shall not perform this type of service for an audit client.”</i></p> <ul style="list-style-type: none"> <li>• What qualifies as an advocacy role? Acting as an expert witness to the court in a proceeding involving the audit client? Drafting for the client a written submission to a tribunal or mediation proceeding? Defending the client's financial reporting before a regulatory investigation or inquiry?</li> <li>• Who decides whether the firm is acting in an advocacy role and what type of criteria will be used in making that decision?</li> <li>• Who decides what is material and against what benchmark?</li> </ul> <p>If the provisions remained as examples for guidance purposes, they would be helpful to the judgement process and clear enough; but when transformed into strict and absolute requirements, against which the professional accountant will be judged, particularly with hindsight or outside the regulatory arena (such as in civil litigation), it becomes evident that not all the provisions are sufficiently clear to provide certainty and be implementable.</p> <p><b>Recommendation:</b>            We acknowledge that to undertake such a wholesale “catch all” review to bring more precision to the “requirements” could prove time consuming and further lengthen the Code. Moreover we do not believe that it is desirable to turn the Code into a very detailed set of rules; however our comments are designed to demonstrate the need to differentiate between high-level principles-based requirements and ”guidance” in the Code and for the Code to provide appropriate scope for the exercise of sensible professional judgment.<sup>3</sup>            Cont'd</p>	PwC	See above

<sup>3</sup> We also note that the Board could enhance the Code's overall clarity by drafting the various sections of the Code in the active voice and eliminating the use of passive voice. These changes would make it clear exactly who is responsible for taking what action and would help eliminate ambiguities of the Code. For the same reasons, the Code would be substantially clearer if the drafters converted the nominalizations (that is, verbs that have been converted into nouns) into "subject - verb" phrases. Further comment is provided in Appendix 1.

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
91.	Q1	<p><u>Appendix 1</u> Illustrative example of possible re-drafting differentiating between the requirement and guidance.</p> <p><u>Financial Interests</u> The firm, partners and members of staff involved in the audit engagement, partners in the engagement office, and those who are able to influence the outcome of the audit engagement, including their immediate family members, shall not have financial interests that would compromise their independence of the audit client. The following [should/may] not have a direct or material indirect financial interest in an audit client:</p> <ul style="list-style-type: none"> <li>a) The audit firm*;</li> <li>b) A member of the audit team*;</li> <li>c) The immediate family* of an audit team member;</li> <li>d) Other partners in the office in which the audit engagement partner practices in connection with the audit engagement*);</li> <li>e) The immediate family of another partner in the office in which the audit engagement partner practices in connection with the audit engagement (except as provided by paragraph X below);</li> <li>f) Partners and managerial employees providing non-audit services to the audit client (except those whose involvement is minimal);</li> <li>g) The immediate family of partners and managerial employees providing non-audit services to the audit client (except as provided by paragraph X below). Etc.</li> </ul> <p><i>Note: the above condenses the more lengthy text of paragraphs 290.104, 108, and 110 in a form which we believe would be easier for accountants to follow and apply.</i></p> <p style="text-align: right;">Cont'd</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
92.	Q1	<p><b><u>Family Relationships</u></b>                      The following is an extract from the ED</p> <p>290.127 Family and personal relationships between a member of the audit team and a director or officer or certain employees (depending on their role) of the audit client may create self-interest, familiarity or intimidation threats. The existence and significance of any threats will depend on a number of factors, including the individual’s responsibilities on the audit team, the role of the family member or other individual within the client and the closeness of the relationship. Consequently, the particular circumstances will need to be evaluated in assessing the significance of these threats.</p> <p>290.128 When an immediate family member of a member of the audit team is:</p> <ul style="list-style-type: none"> <li>(a) A director or officer of the audit client; or</li> <li>(b) An employee in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion, or was in such a position during any period covered by the engagement or the financial statements, the threats to independence can only be reduced to an acceptable level by removing the individual from the audit team. The closeness of the relationship is such that no other safeguards could reduce the threat to an acceptable level. If this safeguard is not applied, the firm shall withdraw from the audit engagement. <p>Comment: it can be seen from the foregoing that the guidance is contained in 290.127, and has effectively been lost in the “rule” in 290.128. Differentiating between the requirement and guidance could result in:                      Members of an audit team shall not have family and personal relationships with a director or officer, or employees of the audit client, that would compromise their independence of the audit client.</p> <p style="text-align: right;">Cont’d</p> </li></ul>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
93.	Q1	<p>The existence and significance of any self interest, familiarity or intimidation threats will depend on a number of factors, including the individual’s responsibilities on the audit team, the overlap of responsibilities, the role of the family member or other individual within the client and the closeness of the relationship. Consequently, the particular circumstances will need to be evaluated in assessing the significance of these threats.</p> <p>When an immediate family member of a [senior] member of the audit team is:</p> <ul style="list-style-type: none"> <li>(a) A director or officer of the audit client; or</li> <li>(b) An employee in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion, it is likely that the threats to independence can only be reduced to an acceptable level by removing the individual from the audit team.</li> </ul> <p>When an immediate family member of a member of the audit team, or an individual with whom a member of the audit team has a close personal relationship, was a director or officer, or an employee in such a position, during the financial statement period, but has since left that employment, the threats should be evaluated, in particular having regard to the length of time that the family member or other individual was in such a position, their responsibilities and any overlap with the member of the audit team. Safeguards may be needed to reduce any threats to an acceptable level. Where the professional accountant has determined that the threats are not at an acceptable level, the individual should be removed from the audit team. Etc.</p>	PwC	See above
94.	Q1	<p>We support the revised explanation of the conceptual framework approach but for the reasons set out above do not believe that the ED's adoption of “requirements” throughout the Code is consistent with this approach.</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
95.	Q1	<p>Generally, we agree that the use of the word ‘shall’ provides greater clarity when conveying the importance of complying with the fundamental principles and, therefore, applying the conceptual framework. However, simply replacing all instances of the word ‘should’ with ‘shall’, throughout the Code, would be counterproductive. It would make the Code more prescriptive and in some situations incorrect.</p> <p>Although care has to be exercised when using the word ‘shall’ in Part A of the Code (see (vii) above), it would generally serve to improve the clarity in Part A. However, it cannot be acceptable in Parts B and C of the Code, as these Parts only contain guidance in support of Part A. For reasons already explained, the contents of Parts B and C must be referred to as ‘specific guidance’, rather than, for example, ‘specific requirements’. Part A must explain that, where the specific guidance closely resembles a situation being encountered by the accountant, the accountant must have a good reason if the guidance is not to be followed, and it must also explain those circumstances in which departure from the guidance is <b>required</b>. We suggest this is also made clear in the introductions to Parts B and C.</p> <p>The significance of bringing the language in line with that adopted by the IAASB is questionable, as the revised structure in the International Standards of Auditing (ISAs) is better suited to ISAs (ie standards largely concerned with procedure), rather than the Code (which is more concerned with behaviour).</p>	ACCA	See above
96.	Q1	<p>We support the replacement of “should” by “shall” where the Code sets requirements. It appears necessary that when a disposition of the Code is a requirement, there is no room for interpretation on that. Nevertheless, we consider that IESBA would have to be very careful in the use of shall in the future in order to avoid to multiply the number of requirements, leading the Code to be more rules based.</p> <p>We also welcome the definition of what shall mean given in § 100.4. It is important to be clear to avoid different interpretation of what a requirement is and to avoid difficulties in translation.</p>	Mazars	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<p><b>Question 2</b>  <b>The IESBA is of the view that separately presenting the objective to be achieved, the requirements designed to achieve that objective, and the application guidance as in the ISAs would not further improve the clarity of the Code.</b></p>				
97.	Q2	We agree that these additional drafting conventions implemented by the IAASB would not further improve the clarity of the Code. In fact it would likely make the Code lengthier, which could make it more difficult to apply.	AICPA	See discussion under Question 2 in Agenda Paper 3 Dec 2008
98.	Q2	We agree with the IESBA's view, as the structure of the current Code provides for sufficient clarity. Part A of the existing Code establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for complying with those principles. Parts B and C of the Code describe how the conceptual framework is to be applied in specific situations.	ICPAS	See above
99.	Q2	We agree. The structure of the Code is very different from the structure of the ISAs, so presenting the objective to be achieved, the requirements designed to achieve that objective, and the application material, as in the ISAs, would not improve the clarity of the Code.	JICPA	See above
100.	Q2	SAICA's Ethics Committee agrees.	SAICA	See above
101.	Q2	We agree with that point of view.	CICPA	See above
102.	Q2	Agree.	MIA	See above
103.	Q2	Whilst the revised structure of ISAs may better suit standards that deal with procedures basically performed by professional accountants, we do not believe that such a structure would suit a principles-based Code primarily dealing with professional behaviour. We, therefore, agree that the clarity of the Code would not be improved if the IESBA were to adopt the structure used for ISAs.	WpK	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
104.	Q2	We are supportive of the current format used in the Code. The establishment of the fundamental principles, providing a conceptual framework for compliance with those principles and then the application of the framework for specific situations provides professional accountants with the basis for understanding the threats and safeguards approach allowing appropriate decision making opportunities	GTI	See above
105.	Q2	Agreed. The ISAs are largely concerned with procedural requirements designed to achieve a number of specific objectives. The Code is, or at least should be, concerned with the behaviour required to comply with a small number of overall principles. The retention of the existing structure is appropriate although any future changes should bear in mind the need to distinguish between principles and the requirements that apply them.	ICAEW	See above
106.	Q2	We agree that the structure of the Code is different from the structure of the ISAs, and applying the same approach as in the ISAs to the Code would not further improve the clarity of the Code.	HKICPA	See above
107.	Q2	Agree. I am of the view that the principal objective of the Code of Ethics is for professional accountants to ensure the person's professional conduct demonstrates professionalism and complies with the fundamental principles. Further dividing the Code into additional sub-objectives does not necessary improve clarity and accordingly this approach should not be adopted in this Code.	Mark Shum	See above
108.	Q2	We believe that a strict application to the Code of the structure retained for ISAs wouldn't improve clarity any further. As the Code deals with professional behaviour, the aim and logic are different and justify the use of a different structure.	CNCC	See above
109.	Q2	We agree. See the comment of CNCC about this question.	CSOEC	See above
110.	Q2	The AIA supports the manner in which the guidance has been presented. The identification of fundamental principles leaves no doubt as to what is required of accountants.	AIA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
111.	Q2	APESB agrees with the IESBA view. Adding further structure and additional text to the existing Code is unlikely to improve the clarity of the Code. The existing Code has sufficient structure to enable users of the Code to find relevant requirements with sufficient ease.	APESB	See above
112.	Q2	We agree with the format of presentation. Alternatively, presenting the guidance separately would result in a mammoth undertaking, without providing additional cohesion to the Code's principles.	BDO	See above
113.	Q2	We agree that this would not further improve the clarity of the code.	CIMA	See above
114.	Q2	We agree.	CARB	See above
115.	Q2	We agree.	IDW	See above
116.	Q2	We believe that principles of ethics and the related guidance and requirements are fundamentally different from the procedural requirements of auditing standards. Accordingly, we agree that separately presenting the objective to be achieved, the requirements designed to achieve it and the application guidance as in the ISAs would not further improve the clarity of the Code	CICA	See above
117.	Q2	We agree that the application of the ISAs approach does not lend itself to the topic of ethics or auditor independence and the rather rigid structure of presenting the objective to be achieved, the requirements designed to achieve that objective, and the application material, as in the ISAs, is not compatible with the Code and a conceptual framework approach. Not only is the structure of the Code fundamentally very different from the ISAs but the topic itself of ethics and auditor independence would not seem amenable to the ISAs approach.	EYG	See above
118.	Q2	We agree.	FEE	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
119.	Q2	FAR SRS agrees.	FARS	See above
120.	Q2	We support the IESBA’s conclusion on this matter.	ICAS	See above
121.	Q2	We believe that the existing structure of the Code is clear, practical and appropriate for applying the principles based approach contained within it. Further, as a conceptual framework rather than a set of standards, it is inherently different from ISAs. Therefore, we agree with IESBA that separately presenting the objective to be achieved, the requirements designed to achieve that objective and the application guidance as in the ISAs would not further improve the clarity of the Code.	RSM	See above
122.	Q2	We agree that the content of the Code does not lend itself to the same format and conventions as adopted in the ISAs and do not therefore favor separation of the objectives from requirements and application guidance.	KPMG	See above
123.	Q2	We agree that the clarity of the Code would not be improved if the IESBA were to adopt the drafting conventions employed by the IAASB. As the Explanatory Memorandum noted, the structure of the Code is quite different from the structure of the ISAs, as well as the nature and application of the independence standards versus the auditing standards.	DTT	See above
124.	Q2	The Joint Accounting Bodies agree that a separate “objective” section would not improve the Code. There exists no compelling need to include a separate section, and if done, would appear to be merely for the sake of consistency with the IAASB. In essence, the objective is described in the opening paragraph (100.1); that is, that “in acting in public interest, a professional accountant shall observe and comply with the ethical requirements of the Code”.	ICAA/ CPA Aus/ NIA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
125.	Q2	<p>We agree with the fact that the separate presentation of objectives, requirements and application guidance would not improve the clarity of the Code, and that the current format is clear enough, for the following reasons:</p> <ul style="list-style-type: none"> <li>• It is impossible to define every situation that creates threats to compliance with the fundamental principles and specify the appropriate action as it is done in the ISAs.</li> <li>• The nature of engagements and work assignments may differ and, consequently, different threats may be created, requiring the application of different safeguards. Therefore, the Code provides a conceptual framework that requires a professional accountant to identify, evaluate, and address threats to compliance with the fundamental principles.</li> <li>• The conceptual framework approach assists professional accountants in complying with the ethical requirements of the Code and meeting their responsibility to act in the public interest. It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and can deter a professional accountant from concluding that a situation is permitted if it is not specifically prohibited.</li> </ul> <p>However, we feel that further guidance can be provided to members by IFAC in relation to objectives, requirements and application, through publications and training.</p>	ICPAC	See above
126.	Q2	<p>We agree with the IESBA’s view, as the structure of the current Code provides for sufficient clarity. Part A of the existing Code establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for complying with those principles. Parts B and C of the Code describe how the conceptual framework is to be applied in specific situations.</p>	ICPAS	See above
127.	Q2	<p>We agree that presenting the objectives, requirements and application guidance separately will not improve the clarity of the Code. A conceptual framework as indicated on page 9 of the EM does not lend itself to the drafting conventions applied in the clarity project of the ISAs and accordingly it would be inappropriate to apply these drafting conventions in the Code.</p>	IRBA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
128.	Q2	<p>We agree - We think that the organisation of the ISAs is not appropriate for the Code of Ethics. The Code sets principles of Ethics where the ISAs set procedures to be achieved when an audit or a review opinion is to be issued. So the structure presenting the objective to be achieved, the requirements designed to achieve that objective and the application guidance, does not seem appropriate for Ethics. Moreover, except in some specific cases, examples given in the Code of Ethics, especially examples of safeguards are only illustrations and are not requirements or guidance.</p>	Mazars	See above
129.	Q2	<p>We agree, though we note that the change in the ISAs was introduced to improve the understanding of users of the different types of material in ISAs. While we do not support applying the ISA structure, the Code also contains different types of material and differentiating between them is an important objective. It is not always clear what is the overriding principle and what is the detailed requirement following from that.</p>	CCAB	See above
130.	Q2	<p>Though generally we could support the IESBA's approach, it would be helpful if IESBA could demonstrate more clearly why its position is appropriate...</p> <p>While we agree, in principle, with the Board's position, we do not believe the Board has sufficiently demonstrated that applying the approach taken in the IAASB's clarity project for the ISAs would not improve the clarity of the Code.</p>	Basel	See above
131.	Q2	<p>We agree that the structure of the IFAC Code as it is currently written is very different to that of the ISAs. However, in the medium term we believe that international users will expect all of IFACs standards to use substantially the same drafting conventions....</p> <p>While in the short term, we agree that the requirements need not be presented separately from application material, we believe that more needs to be done to help users identify the requirements in the IFAC Code. This could be achieved by highlighting the requirements by:</p> <ul style="list-style-type: none"> <li>- the use of bold type for relevant sentences or</li> <li>- underlining the word 'shall' wherever it is used, or</li> <li>- using a numbering convention to indicate requirements.</li> </ul>	APB	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
132.	Q2	<p>Although the exact same format as in the ISAs is not appropriate to the Code, the logic behind the IAASB structure should not be dismissed. Such a change was introduced to improve the understanding of users of the different types of material in the ISAs. The Code also contains different types of material and the new drafting conventions in the exposure draft currently fail to properly differentiate between them.</p> <p>In its clarity project, the IAASB has only identified requirements that were already known as such, and only ‘elevated’ guidance in extant ISAs that was more in the nature of requirements and that was expected to be applicable in virtually all audit engagements. The majority of guidance retained that status as ‘application and other explanatory material’.</p> <p>In a principles-based code, which the Code is asserted to be, the starting point must be that the objective of the detailed guidance is to demonstrate the application of the conceptual framework. The framework must always prevail, thereby safeguarding the fundamental principles. It must be made clear that compliance with the detail is a secondary matter, as it is only illustrative guidance.</p>	ACCA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
133.	Q2	<p>NIVRA disagrees with the IESBA that separately presenting the objective to be achieved, the requirements designed to achieve that objective, and the application guidance as in the ISAs would not further improve the clarity of the Code. We are of the opinion that the ISAs’ approach would actually improve its clarity. Separation of, in particular, requirements and guidance would make the requirements clearer and would make the Code more readable. We believe that it would also contribute to a more uniform implementation of the Code into national regulation. It is also logical and desirable that regulation forming part of the same structure has a consistent look and feel (see ‘Structure of pronouncements issued by the IAASB’ in the Handbook of International Standards on Auditing, Assurance, and Ethics Pronouncements, 2008 Edition, Part I, page 131. The Code of Ethics is the top of the structure). It is for all these reasons that we plead for applying the ISAs’ approach to the Code.</p> <p>Should IESBA decide to apply the ISAs’ structure to the Code then, referring to question 1, we emphasize that the word “shall” should not be used in the context of the application guidance but in the context of the requirements only.</p> <p>If on the other hand IESBA chooses to maintain the existing structure, we request that IESBA considers highlighting the “shall” sections in black letter to clearly indentify the requirements</p>	NIVRA	See above
134.	Q2	<p>The Committee feels that presenting the Code in a manner similar to the international standards on auditing (ISAs) would be more beneficial than the current presentation. Each section of the Code presents a series of requirements commingled with additional information and guidance. Separating the requirements from the other information would make the Code consistent with the ISAs and easier for the user to follow. Each Code section could begin with a definition of the particular situation (e.g., conflicts of interest, gifts and hospitality) and how it's a potential threat, followed by the specific requirements, and conclude with additional guidance (e.g., safeguards to consider).</p>	VSCPA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
135.	Q2	<p>1) The nature of the Code</p> <p>The use of “shall” throughout the Code has fundamentally changed the Code's nature. The Code was originally developed as a “Code” – with fundamental principles and guidance as to how to apply them. By replacing “should” with “shall” throughout, and eliminating the concept of ‘examples’ (as expressed in paragraph 290.100 of the existing Code), the ED has turned material that was previously guidance into requirements. The result is essentially a “rule book”, given the definition of “shall” in paragraph 100.4, instead of a principles-based Code. The ED’s use of “shall” has not only changed the Code's tone, but has also multiplied the number of specific requirements to which accountants and firms are subject. The ED uses “shall” on more than 350 occasions, with, for example, paragraph 290.116 alone using it eight times. The ED’s adoption of so many “requirements” eliminates in many areas the accountant’s ability to apply appropriate professional judgment. This result is inconsistent with the conceptual framework approach explained in paragraphs 100.1 to 100.3, which requires, inter alia, that “professional accountants shall use professional judgment in applying the conceptual framework”.</p> <p>In taking this approach, the IESBA has gone substantially further than the IAASB did in its revision of the ISAs. The ISAs comprise objectives and requirements, accompanied by application and other explanatory material. The ISAs use “shall” only for requirements. The ED is consistent with the ISAs in that it uses “shall” to denote a requirement, but its removal of all “shoulds” (bar one) is not; unlike the ISAs, the ED has elevated almost every provision to a requirement and thereby eliminated the Code’s complementary application material</p> <p><b>Recommendation:</b> We believe the ED would be significantly improved, as well as consistent with the ISAs, if it were restructured to include the fundamental principles, requirements and guidance. The mandatory “shall” should be reserved only for the principles and requirements; guidance (including examples), in contrast, would use “should” or “may.” A redraft along these lines would also ensure that “requirements” are limited and clearly differentiated.</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
136.	Q2	<p><b><i>Clarity of the Code – Deviation from the IAASB International Standards on Auditing (“ISAs”) Clarity Format</i></b></p> <p>Some of our members are not convinced that the Board has presented a clear and comprehensive rationale, in the Explanatory Memorandum that accompanied the Exposure Draft, for its decision not to utilize a format more similar to that used for ISAs (i.e. presenting the objective to be achieved, the requirements designed to achieve that objective, and the application material). For example, it can be argued just as easily for ISAs that the standards are all supporting a single overriding objective.</p> <p>Notwithstanding this comment, we observe that rewriting ISAs into the clarity format used for those standards took several years, and it is unclear how much of the time was due to reformatting the standards and how much was due to questions that arose when the language was changed to introduce “shall” for intended requirements. We do not believe it would be desirable to significantly delay making some incremental clarifications and improvements in the Code on a timelier basis in the current project to improve the clarity of the code. As a suggestion, we encourage the IESBA to prepare a “trial” section of the Code in the ISA Clarity Format to assess whether this format would be more beneficial in improving clarity and whether it really would require a substantial amount of additional time to recast the Code in this way. We note that each of the fundamental principles could be presented as an objective to be attained. Some members believe that organizing the content in the Code in this way might further clarify the Code and promote more consistent application.</p> <p>If this recasting effort cannot be accomplished in the current drafting conventions project, perhaps this could be studied and evaluated by the Board in a future improvement effort.</p>	IOSCO	See above
<p><b>Question 3(a) Do you agree that the Code should contain a provision that permits any exception to compliance with a requirement set out in the Code? If you do not agree, please provide an explanation.</b></p>				
137.	Q3(a)	FAR SRS agrees.	FARS	See discussion under Question 3(a) in Agenda Paper 3 Dec 2008
138.	Q3(a)	I agree	RM	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
139.	Q3(a)	Agree.	MIA	See above
140.	Q3(a)	We agree.	IDW	See above
141.	Q3(a)	SAICA's Ethics Committee agrees.	SAICA	See above
142.	Q3(a)	We agree in principle that the Code should contain a provision that permits exception to compliance with a requirement set out in the Code. We recognize that it is impossible for the IESBA to anticipate all circumstances faced by professional accountants.	HKICPA	See above
143.	Q3(a)	We support the inclusion of a provision that would permit an exception to compliance with the Code in specified circumstances. In fact, the AICPA Code of Professional Conduct contains a provision to recognize that there may be rare circumstances where departure from the rules may be necessary and in the public interest. However, the AICPA Code requires that any member who departs from the Code's rules, interpretations or rulings shall have the burden of justifying such departures (for example, in a disciplinary hearing).	AICPA	See above
144.	Q3(a)	Agree. It would be appropriate for the Code to make provision for exceptions to compliance with any of its requirement.	Mark Shum	See above
145.	Q3(a)	We agree that the Code should contain a provision that permits an exception to compliance with a requirement set out in the Code. This would only be applicable under exceptional and unforeseen circumstances.	ICPAS	See above
146.	Q3(a)	We agree that the Code shall comprise such a provision in exceptional and unforeseen circumstances that are outside the control of the professional accountant, the firm and the client. We believe that an exception, with appropriate safeguards and disclosure, needs to be included.	CSOEC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
147.	Q3(a)	We also agree that a departure from the Code should only occur in exceptional and unforeseen circumstances, and that the acceptance of a departure from the Code should be limited to situations that are out of the control of the professional accountant, the firm or employing organization, and the client.	IIA	See above
148.	Q3(a)	We agree. Paragraph 100.4 of the exposure draft states that compliance is required unless prohibited by law or regulation, or an exception is permitted by the Code. However, there may be exceptional circumstances where compliance is impossible, and those circumstances are not deemed to compromise compliance with the fundamental principles. Moreover, it is impossible to anticipate all such circumstances. Given that such exceptional circumstances could happen, a provision that permits departure from compliance should be contained in the Code to allow a response in such cases.	JICPA	See above
149.	Q3(a)	NIVRA is in favour of a provision that permits an exception to compliance with a requirement set out in the Code in exceptional and unforeseen circumstances and therefore welcomes the addition. <i>However, we are of the opinion that the Explanatory Memorandum sets out the exceptional and unforeseen circumstances that IESBA has in mind clearer than the current article 100.11 text,</i>	NIVRA	See above
150.	Q3(a)	We agree that the Code should contain a provision that permits exceptions where a variation from compliance with its detailed requirements is necessary. In a principles-based Code there may be situations, albeit rare, where compliance with a specific requirement may result in a failure to adhere to the fundamental principles. Consequently, we believe that an exception concept is needed that, with appropriate safeguards in place, would allow to override a single provision if such override would better serve the public interest.	WpK	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
151.	Q3(a)	<p>We believe that the Board’s proposal to permit a temporary departure from any given requirement in the Code, under certain circumstances and with certain conditions, is entirely consistent with a conceptual framework approach to maintaining the five fundamental principles.</p> <p>Certainly, we recognise that there can be situations (such as the unexpected death of a successor partner in a rotation situation, as illustrated in the Explanatory Memorandum to the Exposure Draft) where the application of a specific requirement of the Code may not be in the interests of the users of the output of the accountant’s professional services. However, we cannot envisage circumstances other than those that are exceptional, unforeseen and outside the control of the professional accountant, the firm or employing organization, where the public interest would continue to be best served by a departure from a specific requirement.</p> <p>Under such circumstances, we believe there is a need for full transparency to all stakeholders surrounding any temporary departure from a specific requirement of the Code. We therefore broadly welcome the conditions proposed by the IESBA in paragraph 100.11 of the Exposure Draft.</p>	RSM	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
152.	Q3(a)	<p>Clear explanation of the relationship between the conceptual framework and the guidance in Parts A and B would make paragraph 100.11 less important, although its inclusion adds value to the Code if it serves to clarify that the professional accountant shall refer to the specific guidance before then considering whether or not the conceptual framework approach has been satisfied. We have made specific comment regarding the wording of paragraph 100.11 later in this response.</p> <p>There <b>must</b> be a provision to allow a professional accountant to depart from the guidance in Parts B and C in certain situations. This should not only be where the application of a specific requirement may result in an outcome that would not be regarded as being in the interest of the users of the output of the accountant’s professional services. Rather, in order to demonstrate the Code’s principles-based foundation, departure should be <b>required</b> in circumstances where to follow the guidance would result in failure to adhere to the fundamental principles or failure to reduce the threats to an acceptable level. In these cases, departure may not be temporary. We have suggested amended wording to paragraph 100.11 below.</p>	ACCA	See above
153.	Q3(a)	<p>We agree that there needs to be an allowance for circumstances where an exception from compliance with a detailed requirement is necessary. In a principles-based code, there may be circumstances, albeit rare, where to apply a precise prohibition or mandated action would result in a failure to adhere to the fundamental principles. While we do not advocate moving to the ‘replace if inappropriate’ approach specified by the IAASB, we note that the ‘exception’ concept has a similar purpose, i.e. overriding detail in some circumstances. Accordingly, we believe that an exception, with appropriate safeguards and disclosure, needs to be included.</p>	FEE	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
154.	Q3(a)	<p>Request 3(a) (page xii) - The Exposure Draft proposes that a professional accountant be permitted to depart temporarily from a specific requirement of the Code “in exceptional and unforeseen circumstances that are outside the control of the professional accountant, the firm or employing organization, and the client” (Section 100.11).</p> <p>NASBA agrees that it is reasonable to include a provision that addresses temporary departures from a code of ethics in exceptional and unforeseen circumstances.</p> <p>The Exposure Draft states such a departure would be acceptable if: “The nature of the departure and the reasons for the departure are appropriately disclosed to the users of the output of the professional services.”</p> <p>For users of general purpose reports on financial statements (those reports that are not restricted to a particular user or users), the only way to communicate the departure and reasons therefore is to include an explanatory paragraph in the report of the professional accountant. NASBA recommends that this method of communication be explicitly required by the Code, and that example(s) of appropriate wording for such disclosures be given in the Code.</p> <p>The Exposure Draft states: “The professional accountant may wish to discuss the matter with the relevant regulatory authority.” Because of the serious nature of any departure and the importance given in the Exposure Draft to communication of such departures to users, the proposal should be modified to require the professional accountant to discuss the matter with the “relevant regulatory body.” Regulators are entitled to know of such departures and to be able to consider whether or not the safeguards proposed by the professional accountant are appropriate in the circumstances.</p>	NASBA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
155.	Q3(a)	<p>Grant Thornton International is supportive of providing an allowance for exceptions. This provides the auditor and the client the ability to consider the need for a temporary departure of the requirements within a defined framework. In these limited and exceptional situations, the professional accountant and the audit or review client could consider whether an informed third party aware of the facts and circumstances would reasonably conclude that the departure does not impair the accountants' independence. We assume that the circumstances would be rare and that the accountant would resign or the departure corrected or cured in a timely manner.</p>	GTI	See above
156.	Q3(a)	<p>We do agree that the Code should contain a provision that permits exceptions to compliance with specific requirements. The Code could not possibly be drafted in such a way to contemplate all facts and circumstances that may confront a professional accountant. The Explanatory Memorandum points out one example, but there are many others that might arise.</p> <p>We believe the application of the conceptual framework approach described in the Code mandates that the professional accountant exercise professional judgment in identifying threats and applying safeguards. Situations may arise when the consequences of applying the conceptual framework approach lead to different results than under a particular provision of the Code. Although we would expect these situations to be rare and of an exceptional nature, the Code should nevertheless address the case when the application of a specific provision of the Code leads to a different result than when the conceptual framework approach is applied. Focusing on this conflict is important, in our view, because it highlights the fact that compliance with the conceptual framework approach is possible and may be appropriate, notwithstanding the fact that actions may be taken by the professional accountant that conflict with specific requirements in a particular provision of the Code.</p>	DTT	See above
157.	Q3(a)	<p>We agree with the inclusion of such a provision. It seems sensible to include guidance stating that in certain cases it is acceptable to temporarily depart from a specific requirement in order to uphold the principles of the code.</p>	CIMA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
158.	Q3(a)	<p>There will be cases where an exception to compliance might be appropriate as the application of the Code may result in an outcome that a reasonable or a third party would not regard as being in the interest of users of the output of the accountant’s professional services. It is impossible when drafting a Code to anticipate all circumstances that may be faced by accountants in the performance of their duties.</p> <p>In light of the above we agree with the inclusion of the provision that permits an exception to compliance with the Code, as this:</p> <ul style="list-style-type: none"> <li>• Provides a uniform approach to be followed by accountants when such circumstances arise.</li> <li>• Ensures that appropriate action is taken.</li> <li>• Ensures proper documentation of the reason of the departure.</li> <li>• Ensures that the receiver of the service is aware of the departure and has understood why the departure will provide better value.</li> <li>• Ensures that the engagement proceeds and offers value to users, instead of aborting it completely due to non compliance with an aspect of the Code.</li> <li>• It works towards ensuring future compliance by permitting a departure but calling for compliance to be achieved as soon as possible</li> </ul>	ICPAC	See above
159.	Q3(a)	<p>In general, we believe that containing such a provision is appropriate and is flexible. But for the specific circumstances in China, containing such a provision may lead to the abuse of the exception, and therefore, we are considering not containing this provision in our revised Code of Ethics of CICPA Members.</p>	CICPA	See above
160.	Q3(a)	<p>The exception as drafted appears to be addressing the situation where, for some external reason beyond control of those involved, it is agreed by all stakeholders that the Code should not be applied. This is not an unreasonable scenario though we question the detailed conditions proposed.</p>	ICAEW	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
161.	Q3(a)	Whilst we do not disagree with the inclusion of this exception we believe that this could be better dealt with by making it clear that the overarching principles of the Code must have precedence. If this is clearly stated then any such matters can be dealt with on that basis therefore making this exception redundant. Professional accountants would of course have to justify and document any reasons where they believe compliance with the detailed procedures to be in conflict with compliance with the spirit of the principles	ICAS	See above
162.	Q3(a)	In a principles-based code, which the Code is asserted to be, the starting point must be that the point of the detailed requirements is to apply the principles. The principles must always prevail. Although rare, there may be circumstances where compliance with the detail would not result in compliance with the fundamental principle and it should be made clear that an exceptional override can be applied in such an event.	CCAB	See above
163.	Q3(a)	We do not believe that the Code should contain, in the proposed form, the provision that permits an exception to compliance with a requirement of the Code. We do believe that some latitude should be given in those exceptional and unforeseen circumstances that are outside the control of the professional accountant. However, we do not believe that the discussion and documentation conditions go far enough as requirements.	CICA	See above
164.	Q3(a)	Given that the Code cannot anticipate all possible circumstances, we recommend that a new provision be added to Section A of the Code (in lieu of proposed 100.11) which explains that it may be necessary in certain circumstances for the professional accountant and firm to apply professional judgement and to take a course of action even though it may not be in strict accordance with the letter of the Code.	PwC	See above
165.	Q3(a)	We acknowledge that there may be exceptional circumstances which justify professional accountants temporarily departing from a specific requirement of the IFAC Code. However, the criteria under which the temporary departure in paragraph 100.11 is permitted are very restrictive and, as a result, it is unlikely that it will be used in practice.	APB	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
166.	Q3(a)	The Committee believes that there are requirements for which exceptions will arise (such as the example given regarding rotation) and requirements where no exception can be tolerated (independence requirements). Where exceptions could arise, the word "should" should be retained. Where exceptions are not allowed, the word "shall" should be used.	VSCPA	See above
167.	Q3(a)	<p>The AIA believes that it is unrealistic to avoid any and all threats to compliance with the fundamental principles. There will almost always be a threat arising from the fact that an appointment or engagement if only because of the associated salary or fee.</p> <p>One advantage of the conceptual framework approach is that individual accountants can deal with potential threats on a case by case basis. Creating the possibility of exceptions to specific requirements may reduce the risk that ethical behaviour becomes a box-ticking process.</p>	AIA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
168.	Q3(a)	<p>When introducing this exception IESBA’s intent aimed to limit application to depart from a specific requirement and not to the violation of a fundamental principal. If the proposal is finally retained this underlying statement should be clearly expressed in paragraph 111. In addition, examples might illustrate how such a departure doesn’t breach a principle.</p> <p>Section 290 provisions already deal with inadvertent violation of the Code and permit temporary departure from specific requirements as for example in paragraphs 290.117 or 290. 133. It is not clear enough to us if paragraph 100-11 would allow in those cases the professional to go further in ignoring the provisions of those paragraphs and not apply them properly, in using the exception. Adding a new exception as it is proposed underlines the too prescriptive approach of the Code moving too far towards a rule-based Code. A principle-based code, applied properly, accommodates all circumstances and the needs of entities of all sizes. Similarly, it caters to departures from detailed requirements in cases where their strict observance would result in a failure to comply with the fundamental principles.</p> <p>Conceptually, the addition of such an exception seems dangerous, as it may permit a violation of the Code’s fundamental principles. This is the reason why the CNCC is reluctant to an additional provision that would allow a professional accountant in public practice to depart from a requirement which could lead to a departure from a principle set out in section 100 of the Code, and especially regarding the independence provisions set out in Section 290 “audit and review engagements”.</p> <p>We also have to point out that, the CNCC, as the French Institute exclusively in charge of the statutory audit, is not particularly competent to respond for other kind of activities of professionals, nor for section 300.</p> <p>Providing an exception to compliance with a requirement of the Code might be useful for other assurance engagements (section 291) but in any case we believe it shouldn’t lead to violating a fundamental principle of the Code. We consider that this point should be expressed in the last version of the Code.</p> <p>More over, we would welcome a precision about the notion of “those charge with governance” applied to small entities.</p>	CNCC	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
169.	Q3(a)	<p>We are not convinced that creating an exception to the ‘shall’ requirement which will allow a professional accountant, in some circumstances, to depart temporarily from that specific requirement will contribute to strengthening and clarifying the code. Creating an overarching exception to all requirements as part of the Code, despite the setting of various conditions, could be seen to undermine the obligation which a ‘shall’ requirement is supposed to signify.</p> <p>We appreciate that there could be extreme and unforeseen circumstances which may mean an auditor has to depart from a requirement however, as noted in the explanatory memorandum, it is anticipated this would be very rare and temporary. It would therefore seem appropriate that the auditors should deal with their local regulator on a ‘facts and circumstances’ basis for any such extreme and rare circumstances. This should also ensure that there could be a full and impartial appraisal of what approach may be in the public interest.</p>	CEBS	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
170.	Q3(a)	<p>We strongly disagree that the Code should contain an overriding provision that permits exception to compliance. Refer below for further comments on paragraph 100.11.</p> <p><u>Comments on 100.11</u></p> <p>APESB is particularly concerned with the introduction of such a broad ranging exemption from the requirements and spirit of the Code. There does not appear to be any conceptual basis as to why such an exemption is required. It is our view that draft paragraph 100.11 seriously compromises the integrity of the Code and may lead to undesirable departures from the requirements and spirit of the Code.</p> <p>The Australian Code (APES 110) has had the force of law in respect of financial statement audits conducted under the <i>Corporations Act 2001</i> (which includes all listed entities) since 2006 due to the legislative framework that operates in Australia. In the context of auditor independence and associated rotation requirements, Australian Commonwealth legislators have also introduced requirements into the <i>Corporations Act 2001</i>.</p> <p>To-date we are not aware of any problems with the application of these requirements in practice that would suggest to us that an exemption such as 100.11 in the draft IESBA Code is required</p> <p>Further, the proposed section 100.4 already contains sufficient exemption from the specific requirements of the Code. That is, “compliance is required unless prohibited by law or regulation or an exception is permitted by this Code”. Proposed section 100.11 is not necessary since if there is a departure, then it is the role of regulators and member bodies to determine the severity of the departure from examining the specific facts and circumstances before determining the extent of any corrective action that needs to be undertaken by the member.</p> <p>In the context of the example provided in the Explanatory Memorandum, in Australia any exemption (extension) to the audit rotation requirements would need to be provided by way of an exemption instrument executed by the corporate regulator (Australian Securities and Investments Commission). This situation is also envisaged in paragraph 290.155 of the Code. Without that instrument a member would still be viewed to be in breach even though they may have satisfied compliance with the proposed paragraph 100.11.</p> <p>Accordingly, we strongly recommend that IESBA remove paragraph 100.11 to preserve the overall integrity of the code.</p>	APESB	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
171.	Q3(a)	<p>We have serious concerns that providing this departure provision in the Code is an introduction for potential abuse of compliance with the Code. Such provision would weaken the Code and is inconsistent with the conceptual framework. With the exception of environments which are extremely remote, having scarce resources, we cannot envisage circumstances which would support departure from compliance with the Code. The examples provided for application of Paragraph 200.11 do not provide adequate rationale to allow a firm to continue as the auditor for their client. The examples appear to be a rationale to protect the commercial needs of an individual firm or accountant. In fact, we cannot think of appropriate examples that would support such exceptional situations; therefore, we do not think it is appropriate to publish the ability for professional accountants not to undermine adherence to the Code's principles.</p> <p>We do not feel that disclosure is adequate rationale to support departure from the Code, and certainly would not provide comfort to third party users of the financial information. Such disclosure does not have a place in an audit report and would not work in the real world.</p> <p>The firm should have appropriate safeguards in place to cover partner rotation issues and weaknesses in the rotation plan do not justify noncompliance with the Code. In the examples raised, simply resigning would satisfy the requirements of the Code. If there are other circumstances that arise, preventing compliance with the Code, the firm may need to resign from the client.</p>	BDO	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
172.	Q3(a)	<p>We are concerned however, that the proposed exception to compliance with the Code will be seen to weaken the Code as it relates to auditors' independence. How one practitioner may see a situation as outside of his or her control, and that of the client, may be very different from how another practitioner may view the exact same situation. Further, although we agree that difficult independence issues should be discussed with those charged with governance, we do not agree that disclosure in the auditors' report or elsewhere is necessarily a useful safeguard. If anything, such disclosure could be confusing to a third party.</p> <p>We presume that the proposed exception to compliance with the Code has been drafted principally with regard to section 290 of the Code and not to other sections of the Code which generally contain few absolute prohibitions for which an exception might ever need to be contemplated. As stated earlier, we are concerned that the proposed exception to compliance with the Code will be seen to weaken the Code as it relates to auditors' independence.</p> <p>We recognize that in some jurisdictions it may be possible to discuss with the regulator exceptional circumstances that prevent compliance with independence requirements and in other jurisdictions it may not. In the latter situations, we believe auditors should discuss with the relevant IFAC member body the unusual facts and circumstances and obtain their guidance. We would support an explicit statement in the Code to reflect the need for such consultations in those circumstances.</p> <p>If there are jurisdictions in which there is no regulator to consult with and the auditor's member body is unable to consult with the auditor, we would support the creation of an IESBA subgroup to provide the consultation</p>	KPMG	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
173.	Q3(a)	<p>We acknowledge that exceptional and unforeseen circumstances may create a situation where full compliance may not be possible for reasons that are outside the control of the professional accountant, the firm or employing organization, and the client. However, we do not support the exception as proposed. Even with the conditions outlined in the proposed provision, we believe such an exception could be too readily employed and departure from the Code, for matters of mere inconvenience, could be too easily justified.</p> <p>The conceptual framework approach already provides a level of flexibility within the Code and in many instances, allows the professional accountant to apply materiality in evaluating a threat to independence as well as provide safeguards to reduce such a threat to an acceptable level. The Code also provides exceptions for inadvertent violations. In those situations where an engagement or relationship is unavoidable and the threat to independence is significant and cannot be resolved, we believe non-acceptance or termination of the relationship/engagement would normally be the appropriate response and find it difficult to understand why it would be in the public interest to provide an exception for a threat to independence that is at an unacceptable level and for which adequate safeguards are not available. By definition, a set of rules is designed to prohibit certain behaviors or relationships and the inclusion of a provision that could allow for easy rationalization of departures from specific requirements of the Code due to “exceptional and unforeseen circumstances” would significantly undermine the Code and compromise IFAC being the foundation for convergence. Those rare circumstances that the professional accountant and the audit client believe that non-acceptance or termination of the audit engagement would severely disadvantage the client and/or users, we believe should be addressed through discussion with either the applicable regulatory authority or, in the absence of such, the appropriate professional body as well as those charged with governance in the audit client. In this connection we believe that the Code should make a statement to that effect.</p> <p>In those countries where the professional accountant has no access to consultation with a regulator or the professional body, we believe that the professional accountant should have the ability to consult with a consultation facility within IFAC.</p>	EYG	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
174.	Q3(a)	<p>While we agree that there could be circumstances where it may not be possible to comply with the Code, we believe that the Code should not include a provision that permits an exception to compliance with a specific requirement of the Code. We view this provision as a significant weakening of the Code. Therefore, we believe paragraph 100.11 should be deleted.</p> <p>However, if the Board were to decide to retain paragraph 100.11, we believe that the Board should at a minimum delete the four conditions set forth in this paragraph (and the introductory statement preceding these conditions) and should modify the final sentence to state (underlined text should be added and text to be deleted has been struck through):</p> <p>“The professional accountant <del>shall</del> <del>may wish to</del> discuss the matter with <u>those charged with governance and</u> the relevant regulatory authority <u>before deciding whether to proceed with a departure from the specific requirement.</u> <del>If the accountant has such a discussion,</del> <u>t</u>he substance of that discussion as well as the action taken shall be documented.”</p>	Basel	See above
175.	Q3(a)	<p>Firstly, we do not believe that a principles-based Code should need to provide for exceptions. In rare circumstances when the fundamental principle may not be complied with, then dialogue with the regulator should be encouraged. Surely the aim is to ensure that the drafting of the fundamental principle is adequate to apply to any situation.</p>	CARB	See above
176.	Q3(a)	<p>The Joint Accounting Bodies do not agree that the Code should contain a provision that permits any exception to compliance with a requirement set out in the Code. From a public interest perspective “exceptional and unforeseen circumstances” should be treated no differently from the manner in which all circumstances are treated for the purposes of this Code. That is, the professional accountant applies a conceptual framework approach, exercising professional judgement, to ensure that safeguards are applied where necessary, to reduce the risk of threats to an acceptable level. Where an acceptable level cannot be attained, public interest is in danger of being contravened, and therefore the “breach of the Code” should not be countenanced. Issues surrounding auditor rotation for smaller practices, which is often cited as an example for needing a paragraph like 100.11, is adequately dealt with by para. 290.155.</p>	ICAA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
177.	Q3(a)	<p>We do not agree with the proposed paragraph 100.11, that recognises that temporary departures from specific requirements in the Code may arise “<b>in exceptional and unforeseen circumstances</b>” and provides explicit conditions under which a departure would be acceptable. The EM describes “exceptional circumstances” as “rare and unusual”. The very nature of the environment in which auditors operate, as well as the nature of ethics, is such that they are, more often than not, faced with circumstances that may be <b>unforeseen</b> and <b>exceptional</b>. Accordingly, auditors have to consider and evaluate any apparent conflicts which arise regularly and for which the circumstances are rarely the same.</p> <p>If exceptions are allowed for in the manner provided for in paragraph 100.11 the Code begins to move away from a conceptual framework where professional accountants have to exercise their professional judgement in ethical conflict situations to a compliance framework. Further it seems doubtful that the IESBA will be able to reach consensus from commentators around the world regarding the specific conditions imposed on auditors by the paragraph in such circumstances for the departure to be “acceptable”.</p> <p>We believe that a professional accountant is required to, and capable of, applying the guidance in paragraphs 100.1 – 100.10 relating to the fundamental principles, and if s/he could not comply with any of the provisions in particular circumstances that are unforeseen and may be considered in rare instances as being “exceptional” s/he should be able to demonstrate how the fundamental principles were met. In addition, we believe that paragraph 100.10 already provides for inadvertent violations by the professional accountant which would not be deemed to compromise compliance with the fundamental principles and by their nature are likely to lead to a temporary departure. Accordingly, we recommend that paragraph 100.11 be deleted.</p>	IRBA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
178.	Q3(a)	<p>In a principles based Code, an exception does not seem necessary as professional judgement is required to apply the principles. Nevertheless, where the Code sets requirements, a general exception could be necessary in some circumstances. We totally disagree to set a general exception that could apply to all sections, especially for independence requirements. Today, in a context of crisis, everything must be done to restore and improve confidence in financial information. In this context, it must be clear that auditors are independent and it could never be considered that an exception to independence is in the interest of the public.</p>	Mazars	See above
179.	Q3(a)	<p>There could be no exception to the fundamental principles (section 100 to 150) and to independence requirements for assurance and review engagements for accountants in public practice (section 290). Section 290 already includes provisions to cope with inadvertent violation and gives specific exemption for some requirements or transitional provisions for others. Then, the exception should not apply where a specific exception had already been introduced. Therefore we totally disagree with the example given on partner rotation as an exception already exists in that matter and that partner rotation is a requirement regarding the independence for the audit of PIEs.</p> <p>Last, we consider that the exception as it is proposed is rules based rather than principles based and that some conditions are not appropriate. Especially, discussion with those charged with governance would be difficult to implement in some jurisdiction or for non listed entities, especially SME. So it seems difficult to set this condition as a requirement.</p> <p>We think that, in some cases, it could be possible to introduce an exception if the departure from the requirement is not significant and/or has no material impact as it is already the case for some non audit services for audit client.</p>	Mazars	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
180.	Q3(a)	<p><i>Use of General and Specific Exceptions</i></p> <p>Making a provision for exceptions to a requirement and writing this into the Code immediately after the requirement is contradictory and undermines the requirements. We do not agree that writing exception language into the Code, as proposed, is an appropriate approach to address exceptional circumstances. We are concerned that the Board's proposed text regarding exceptions will weaken the Code and cause the Code to be applied inconsistently. Further, undermining requirements in the Code with a variety of written exceptions will make it more difficult to make progress toward global convergence in ethics and independence requirements. As such, we do not believe the Code should include an exception for inadvertent violations or exceptions for exceptional and unforeseen circumstances. However, if the Board ultimately decides to retain these exceptions in the current version of the Code to be issued, we have provided specific comments below.</p>	IOSCO	See above
181.	Q3(a)	<p><i>Exception for exceptional and unforeseen circumstances</i></p> <p>Paragraph 100.11 states, in part</p> <p>In exceptional and unforeseen circumstances that are outside the control of the professional accountant, the firm or employing organization, and the client, the application of a specific requirement in the Code may result in an outcome that a reasonable and informed third party would not regard as being in the interest of the users of the output of the professional services. In such circumstances, the professional accountant may judge it necessary to depart temporarily from that specific requirement. Such a departure would be acceptable only if all of the following conditions are met... [four conditions follow].</p> <p style="text-align: right;">Con't</p>	IOSCO	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
182.	Q3(a)	<p>As the Code is now written, it appears to allow a professional accountant to "override" any requirement under the guise that the matter is outside the professional accountant, the firm, and the client's control. In this situation the professional accountant is only required to discuss and document the matter with those charged with governance, disclose the matter to users of the output of the professional services and comply with the requirements of the Code at the earliest date that such compliance can be achieved. The latter point is highly subjective. Further, the requirement for a professional accountant to appropriately disclose "the nature of the departure and the reasons for the departure" to the users of the output of the professional services is vague and therefore could be interpreted and implemented inconsistently. In the case of publicly listed companies, the users of the auditor's output – the auditor's report and opinion – could be widespread. Is the Code proposing that the auditor would include reference to this exceptional circumstance in the audit opinion? The four conditions do not appear to be adequate safeguards that would reduce threats to an acceptable level in all circumstances. Additionally, we are uncomfortable with the broad language in this exception and the implication that at times non-compliance with the Code's requirements would be <i>necessary</i>. It can be argued that many circumstances are "exceptional and unforeseen", and/or that certain events or matters are outside of the control of the professional accountant, the firm, and the client. In addition, the Code does not provide a definition for "exceptional", leaving open the possibility to argue that "exceptional" is anything other than "the usual". For example, does an "exceptional" item have to be highly unusual and rare, or just not what happens most typically and frequently? This creates an ambiguity that weakens the Code.</p> <p>We acknowledge that the Explanatory Memorandum states:</p> <p style="padding-left: 40px;">A departure is only acceptable if the circumstances are exceptional and unforeseen and are outside the control of the professional accountant, firm or employing organization, and the client. A departure cannot occur if compliance is possible but would be inconvenient to the professional accountant, firm, employing organization or client.</p> <p style="text-align: right;">Con't</p>	IOSCO	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
183.	Q3(a)	However, the partner rotation example provided in the Explanatory Memorandum appears to be an allowable temporary departure that is “inconvenient” to the firm and not fully “outside the control” of the firm as the violation could have been prevented with proper planning. For example, in a firm that has an extremely limited number of partners to serve public interest entities in specialized industries, partner rotation could occur more frequently than is required by the Code to avoid being caught in a situation where time has run out. Special efforts could also be made to increase the number of partners with experience in an industry, and/or to develop contingency plans should one or more partners become unavailable. Although this might be inconvenient for the professional accountant, the firm, and the client, one can argue that the departure could have been prevented with such advanced planning.	IOSCO	See above
<b>Question 3(b) If you believe that the Code should contain a provision that permits an exception to compliance, are the conditions under which the exception would apply appropriate?</b>				
184.	Q3(b)	SAICA’s Ethics Committee agrees. The example given is practical.	SAICA	See discussion under Question 3(b) in Agenda Paper 3 Dec 2008
185.	Q3(b)	Appropriate	MIA	See above
186.	Q3(b)	We agree with the conditions set out in the proposed paragraph 100.11.	ICPAS	See above
187.	Q3(b)	FAR SRS agrees that a provision to deal with the circumstances raised in the Exposure Draft is appropriate	FARS	See above
188.	Q3(b)	The AIA believes that the requirements set out in paragraph 100.11 are both proportionate and practical. Making those charged with governance aware of the problem permits senior management to take an informed view of the problem. Making users aware enables them to take account of the issue. Furthermore, this level of disclosure will create a sense of transparency that will encourage accountants who are in breach to consider their position carefully before proceeding in an appointment where the risks are unacceptable.	AIA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
189.	Q3(b)	<p>In general, we agree with the conditions under which a departure would be acceptable except for the third bullet requiring the disclosure to the users of the output of the professional services of the nature of the departure and reasons for it. We believe it is unnecessary to require this condition as there are already sufficient “safeguards” such as the professional accountant has to have the agreement of those charged with governance. As the Code is based on a conceptual framework that provides for the evaluation of particular facts and circumstances to assess the threats to compliance with the fundamental principles and the application of safeguards to eliminate the threats or reduce them to an acceptable level, professional accountants are required to exercise reasonable professional judgement.</p>	HKICPA	See above
190.	Q3(b)	<p>We do not however, support the exemption that is currently presented in paragraph 100.11 of the ED. We believe that some of the conditions currently presented are not in line with the conceptual framework approach which requires the 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.</p> <p>The suggested requirement to disclose the departure and the reasons for the departure to the users of the output of the professional services would prove to be problematic in the market place and would result in confusion and rejection of report by the users. We believe that by requiring concurrence with relevant regulators, no disclosure is needed. We submit the following suggested wording:</p> <p style="text-align: right;">Cont’d</p>	GTI	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
191.	Q3(b)	<p>“Due to exceptional and limited circumstances of significant magnitude impacting the public interest, that are outside the control of the professional accountant, a strict application of a specific requirement of the Code may result in an outcome that a reasonable and informed third party aware of the facts and circumstances would not regard as being in the public interest. In such circumstances the professional accountant may consider it necessary to depart temporarily from the specific requirements. Examples of such circumstances may include natural disasters, merger and acquisitions resulting from an economic crisis and unforeseen complexities of the application of the network firm definition. Such a departure would be acceptable only if all of the following conditions are met:</p> <ol style="list-style-type: none"> <li>1. The professional accountant rendering a report identified, evaluated and addressed threats to compliance with the fundamental principles and concluded that a reasonable and informed third party would not consider independence impaired and objectivity compromised.</li> <li>2. The professional accountant discusses the matter with those charged with governance of the client, including the nature of the circumstances and why, in the professional accountant’s judgment, the departure is warranted and in the public interest, and obtains concurrence with the professional accountant’s conclusion.</li> <li>3. The professional accountant documents the matters discussed with those charged with governance of the client;</li> <li>4. If the applicable regulator or the IFAC member body has established a process, whether formal or informal, for professional accountants to discuss conclusions reached with respect to independence issues, the professional accountant shall take the steps necessary to comply with such process, determine that the regulator or IFAC member body has no objection to the conclusions reached, and document the matters discussed;</li> <li>5. The professional accountant applies safeguards that those charged with governance, and regulator or the member body where applicable, agree are appropriate under the particular facts and circumstances; and</li> <li>6. The professional accountant complies with the requirements of the Code at the earliest date that compliance can be achieved.”</li> </ol> <p style="text-align: right;">Cont’d</p>	GTI	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
192.	Q3(b)	<p>If the above departure wording is not acceptable, we would ask the Board to consider including the following (italicized) wording in the Preface of the Code:</p> <p>This Code of Ethics for Professional Accountants establishes ethical requirements for professional accountants. A member body of IFAC or firm shall not apply less stringent standards than those stated in this Code. However, if a member body or firm is prohibited from complying with certain parts of this Code by law or regulation, they shall comply with all other parts of this Code. If due to exceptional circumstances, the professional accountant believes it is in the best interest of the public to depart from the Code, the professional accountant shall seek the applicable regulator’s or the IFAC member body’s approval in those jurisdictions where a formal or informal process for consultation is available.</p>	GTI	See above
193.	Q3(b)	<p>We note that the circumstances under which an exception is acceptable is too narrow, i.e. only in exceptional and unforeseen circumstances that are outside the control of the professional accountant, the firm or employing organization, and the client. We are of the view that the critical test for whether an exception to compliance should be permitted is whether an exception is in the public interest. We believe that exceptions should only be permitted when it is in the public interest to depart from the Code in exceptional circumstances.</p>	HKICPA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
194.	Q3(b)	<p>The exception included in the draft is addressing a different point. We agree that an exception in the circumstances specified is reasonable to include, but:</p> <ul style="list-style-type: none"> <li>- it includes a set of required procedures suited to audit work but not always relevant to other types of work (examples being: the requirement to communicate with those charged with governance, which may not always be appropriate – indeed they may be the cause of the problem; and the requirement to always document, in circumstances where there may be no other documentation requirements); and</li> <li>- it does not seem to require the application of other safeguards, which makes it an exemption rather than an alternative.</li> </ul> <p>If it is considered that it would, in practice, only apply in audit or other assurance engagements, perhaps it should be relocated to sections 290 and 291. If it is expected to apply in other circumstances, then the requirement to apply all conditions in all circumstances should be reconsidered.</p> <p>A further point arising is that if exceptions are to be very limited, it is important to ensure that the underlying requirements are not unrealistic. For example, in paragraphs 100.8, 200.2 and 300.7 there are requirements relating to ‘any’ circumstances which ‘might’ or ‘may’ impair compliance with fundamental principles. As almost anything might or may have an effect given particular circumstances, this is a virtually impossible task to comply with. A further example is in 100.19, where there is a requirement to ‘weigh the consequences of each possible course of action.’ If these actions are assessed with the benefit of hindsight, this could be seen as a very onerous and unrealistic requirement.</p>	CCAB	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
195.	Q3(b)	<p>The proposed exception would only apply when there are “unforeseen circumstances that are outside the control of the professional accountant, the firm or employing organization, <i>and the client...</i>” (emphasis added). While we agree that such circumstances should be outside the control of the accountant, firm and employer, we question whether it is appropriate to require that they also be outside the control of the client. Such a requirement would seem to unfairly punish an audit client that makes a business decision to acquire an entity to which its auditor is rendering a nonaudit service and because of the change from "should" to "shall" would mean that every audit client that is considering such an acquisition would need to factor into its consideration the need to retain new auditors upon completing the transaction. Forcing companies to undergo a change of auditors in those circumstances does not seem to be in the public interest, particularly if the auditor and the client can agree on safeguards to preserve the auditor's independence while the arrangements are being resolved. We therefore recommend that the IESBA reconsider this condition and permit an exception in situations where the event is within the control of the client.</p>	AICPA	See above
196.	Q3(b)	<p>The IESBA is also proposing that the professional accountant who temporarily departs from a requirement in the Code disclose “<i>The nature of the departure and the reasons for the departure are appropriately disclosed to the users of the output of the professional services.</i>” It is not clear where such disclosure would be made but we question the need for such a requirement. Certainly it would be appropriate to discuss the matter with those charged with governance of the employer or client. We also think it may be appropriate to require the accountant to discuss the matter with the relevant regulatory or professional body, where such bodies are equipped to advise accountants on such exceptions. The IESBA may wish to consider this. We believe it is particularly appropriate to refer accountants to their member bodies given that it is the member body that will typically be responsible for enforcing the requirements of the Code on its members. With these actions, however, we question the need for a disclosure. Further, if the disclosure is made in the auditor's report, we would be concerned that that would undermine the credibility and stature of the audit report. We recommend that the IESBA reconsider this disclosure requirement.</p>	AICPA	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
197.	Q3(b)	We believe that these should not be referred to as ‘conditions’, but rather ‘safeguards required’, reinforced by the use of the word ‘shall’ in each case.	ACCA	See above
198.	Q3(b)	The opening sentence of the proposed paragraph 100.11 clarifies the circumstances in which a professional accountant may judge it necessary to depart from a specific requirement of the Code. When circumstances are outside the control of each of the professional accountant, the firm or employing organisation, and the client, whether they are foreseen or unforeseen becomes irrelevant. Therefore, we suggest that reference to unforeseen circumstances be deleted. We have incorporated these suggestions into the suggested wording below.	ACCA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
199.	Q3(b)	<p>The key requirement must be that stakeholders, or appropriate representatives of stakeholders such as audit committees, should be aware. However, while it is most likely that the situation would arise in audit or other assurance engagements (because of the number of detailed requirements), section 100 does cover the whole scope of the Code. Therefore it could apply to a wide variety of non-assurance engagements for non-audit clients, work for individuals, accountants in business, etc. In such circumstances there may not be an audit committee or equivalent. Similarly, given the wide range of potential matters, though documentation would clearly be needed in an assurance situation, it may only be advisable rather than necessary, in some other situations. The conditions set need to be more principles-based as to the precise steps to take. Thus the professional accountant should be required to implement safeguards including, particularly, that stakeholders (or appropriate representatives of stakeholders) have agreed or are at least informed.</p> <p>In a principles-based code, compliance with the underlying principles must be the ultimate aim of all detailed requirements. In such a code there should always be an acknowledgement that there may be some occasions (albeit rare) where because of the particular circumstances, to follow the specific requirement would actually fail to comply with the fundamental principle. The exception as drafted could cover this scenario but we do not believe that it is clear that it does. It is important that the change to more 'black and white' wording is not seen as a change from a principles-based to a rules-based code. Therefore we believe this possibility should be explicitly stated. We have noted in our response to question 1 the wording used by the ICAEW to address this.</p> <p>In these circumstances (not complying with the fundamental principle) we would also expect alternative safeguards to be applied.</p> <p>This apart, we do not envisage any other circumstances where non-compliance would be appropriate.</p>	ICAEW	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
200.	Q3(b)	<p>However, in order to best serve the interests of the users of the output of the accountant’s professional services, we would suggest that the Board considers supplementing the third condition in paragraph 100.11 to read:</p> <p>“The nature of the departure and the reason for the departure are appropriately disclosed to the users of the output of the professional services as soon as is practically possible.”</p>	RSM	See above
201.	Q3(b)	<p>Also the scope of 100.11 seems to be wider than is both meant and desirable. Therefore we suggest to add the following conditions and guidance to 100.11:</p> <ul style="list-style-type: none"> <li>- such a departure would be acceptable only if a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time, would be likely to propose a temporary departure to those charged with governance;</li> <li>- such a departure would be acceptable only if every other professional accountant in the same circumstances would not be able to comply with that specific requirement either;</li> <li>- the example of exceptional and unforeseen circumstances given in the Explanatory Memorandum;</li> <li>- the sentence “A departure cannot occur if compliance is possible but would be inconvenient to the professional accountant, firm, employing organization or client.” (Explanatory Memorandum, page vii).</li> </ul> <p>We cannot think of any other circumstances where we are of the opinion that a departure from a requirement in the Code would be acceptable. We are of the view that an event that is within the control of one of the relevant parties should not qualify for an exception.</p>	NIVRA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
202.	Q3(b)	<p>We believe the set conditions under which the exception would apply are appropriate for the reasons mentioned in (a) above.</p> <p>A suggestion for an additional condition to be set would be to define a timeframe for revisiting the issue to ensure future compliance takes effect as soon as possible. Such revisits and assessments of whether compliance can be achieved perhaps need not be documented.</p>	ICPAC	See above
203.	Q3(b)	<p>When a professional accountant is unable to comply with a specific requirement in those rare circumstances, we would suggest that, in addition to the proposed conditions, the Code require the professional accountant to be able to demonstrate to the appropriate regulatory authority and/or those charged with governance that no fundamental principle has been compromised and that the public interest has been served.</p>	CICA	See above
204.	Q3(b)	<p>An additional requirement should be added to oblige the professional accountant to forward a copy of the document (whether by way of a management letter or otherwise) recording the matters discussed to the person(s) charged with governance. This is to ensure that the client is aware of the exceptional or unforeseen circumstance and promotes mutual understanding between the professional accountant and the client.</p>	Mark Shum	See above
205.	Q3(b)	<p>The Committee believes that the conditions should include mandatory communication with the relevant regulatory authority.</p>	VSCPA	See above
206.	Q3(b)	<p>In particular we are uncertain whether the need to disclose the nature of the departure and the reasons for it to the users of the output of the professional services will necessarily be in the public interest, especially where the output is associated with an engagement that is not a statutory audit.</p>	APB	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
207.	Q3(b)	<p>As an alternative to providing generic guidance on circumstances where a temporary departure may be acceptable, it may be better to provide a number of short-term overrides in situations where it is obviously in the public interest for the accountant to depart from the IFAC Code. This could be achieved through transitional guidance in the case of specific situations, such as the partner rotation situation outlined in the explanatory memorandum accompanying the exposure draft. Another example is merger and acquisition situations, where an override may be necessary in respect of existing business relationships or contracts to provide prohibited non-audit services. Such an override would allow a transaction to proceed with an orderly transition for audit arrangements for the enlarged group thereafter. Specific problems that could arise in these situations include:</p> <ul style="list-style-type: none"> <li>• Where the auditor is not independent of the audited entity’s target (or vice versa), but it may be necessary for one or both audit firms to report on financial information which includes the entity which they are not independent of. Given confidentiality and time constraints it may not be practical to instruct another firm.</li> <li>• Where a full (global) search for independence issues may not be practical because there are confidentiality and/or time constraints. For example, if a transaction takes place close to a year end, the subsequent audit will need to be completed in a short time frame to meet reporting deadlines.</li> </ul> <p>Such situations could be addressed by providing that auditors shall, in these circumstances, terminate those relationships which compromise their independence at the earliest opportunity consistent with the interests of the entity concerned (and in any event within [x] months) and disclose the facts to those charged with governance within both companies.</p>	APB	See above
208.	Q3 (b)	<p>Section 100.11 should be more specific for governance to include consultation with management's legal counsel and the independent Board of Directors. The conduct of the audit should not be limited to management alone. (d)</p>	JM	See above
209.	Q3 (b)	<p>We recommend that if a departure from the code is warranted, in addition to reporting any safeguards to be applied to those charged with governance, that responsible parties ensure that the safeguards are applied appropriately. In addition, we recommend these safeguards are monitored for compliance until the circumstances creating the need for the departure from the code are resolved.</p>	IIA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
210.	Q3 (b)	<p>Paragraph 100.11 limits any exceptions to those that are “exceptional and unforeseen circumstances that are outside the control of the professional accountant, firm or employing organization, and the client”. In our opinion, when circumstances are outside the control of the professional accountant, firm, employing organization or the client, it becomes irrelevant whether the circumstances were foreseen or unforeseen. We suggest deleting the reference to unforeseen circumstances. With respect to cases that are within the control of a client we refer to d) below.</p> <p>Considering that this section of the Code applies to all professional activities of professional accountants, we wonder whether the requirement to discuss with those charged with governance will be applicable and appropriate in all kinds of situations that professional accountants may face. This refers for instance to situations where professional services are provided to individuals or to a component of an entity where the component is immaterial to the group accounts and the particular service is insignificant for the entity as a whole. Therefore, in our opinion, the discussion with those charged with governance should not be mandatory in all cases.</p> <p>Additionally, depending on his or her position within the firm's hierarchy a professional accountant employed by the firm would generally refer the matter to the individual responsible for the service, ultimately the responsible partner, rather than directly discuss with those charged with governance. We suggest to clarify this.</p> <p>We recognize that a disclosure may be appropriate in some specific cases. However, we do not believe that a mandatory disclosure of every application of the exception will be in the public interest. In our opinion there may be a risk that others outside the firm and the client may regard this disclosure as a revelation that the professional accountant did not comply with the Code, which would be misleading. We believe that the public interest is better served once the professional accountant and - in cases of assurance services - those charged with governance have considered whether the use of the exception and application of safeguards would meet the public interest.</p>	WpK	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
211.	Q3 (b)	<p>We agree that the conditions are acceptable, in principle, however, we have the following comments in respect of paragraph 100.11:</p> <ul style="list-style-type: none"> <li>• The opening sentence clarifies the circumstances in which a professional accountant may judge it necessary to temporarily depart from a specific requirement of the Code. We would like to point out that when circumstances are outside the control of each of the professional accountant, the firm or employing organization, and the client, whether they are foreseen or unforeseen becomes irrelevant. Accordingly, we suggest reference to unforeseen circumstances be deleted.</li> <li>• We would also like to point out that, for example, there may not necessarily be potential for discussion with those charged with governance in all situations accountants in business may encounter. Furthermore, it is unclear who “those charged with governance” might be in respect of services provided to individuals. Therefore, this criterion should not be mandatory in all cases.</li> <li>• A professional accountant employed within an audit firm would, depending on his or her position in the firm’s hierarchy, normally refer the relevant matter to the partner responsible for the individual audit engagement in the first instance, as opposed to directly seeking contact to those charged with governance of the client entity. This aspect ought to be clarified.</li> <li>• The only sentence using “shall” refers to the content of the discussion. However, as the paragraph states that the departure would only be acceptable if all of certain conditions are met, subject to our comments immediately below, we suggest it would be clearer if the procedures underlying these conditions were also worded using “shall” rather than present tense.</li> </ul> <p style="text-align: right;">Cont’d</p>	IDW	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
212.	Q3 (b)	<p>We support full transparency of a professional accountant’s compliance with the Code of Ethics, as a matter of principle. Accordingly, we appreciate that when a professional accountant judges it necessary to depart temporarily from a specific requirement of the Code the proposed adequate disclosure of that departure may to be in the public interest. However, we are concerned that disclosure of the nature of the departure and the reasons for the departure could, in certain cases, be interpreted by the wider public as constituting a statement that a professional accountant has not complied with the Code of Ethics, which would not be the case, nor would it be in the public interest. On this basis, we do not believe “disclosure”, as proposed in the third bullet point, should constitute a mandatory criterion for determining the acceptability of a departure. In our opinion, it would be preferable for this section of the Code to require that, in individual cases, the professional accountant in consultation with those charged with governance determine whether disclosure is indeed in the public interest and re-quire disclosure only in such cases.</p>	IDW	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
213.	Q3 (b)	<p>As well as the principles compliance issue noted above, we agree that a provision to deal with the circumstances raised in the Exposure Draft is appropriate. However, we have a number of comments on the detailed drafting, which seems to have been written as a set of detailed rules rather than apply a threats and safeguards approach:</p> <ul style="list-style-type: none"> <li>• The opening sentence clarifies the circumstances in which a professional accountant may judge it necessary to temporarily depart from a specific requirement of the Code. When circumstances are outside the control of each of the professional accountant, the firm or employing organization, and the client, whether they are foreseen or unforeseen becomes irrelevant. We suggest reference to unforeseen circumstances be deleted.</li> <li>• A "disclosure" of any departure from a "shall" requirement of the Code might not be appropriate, or even weaken the acceptance of the Code as such: <ul style="list-style-type: none"> <li>○ Although the professional accountant would apply alternative safeguards and thus be acting in accordance with the Code when he uses the departure foreseen in paragraph 100.11, the reader of a disclosure as currently proposed may draw wrong conclusions as it may appear to him that the professional accountant is not in compliance with the Code when such a disclosure is made.</li> <li>○ Overall this would lead to new questions, new discussions and, finally, distort the acceptance of the Code as a whole.</li> <li>○ In addition to that, such a disclosure may send a problematic message to the marketplace: Users of audit reports may assume that something is wrong with the company's audited financial statements although this would not be the case.</li> <li>○ In this respect, it is also noted that a departure from a "shall" requirement in the International Standards on Auditing (ISAs) is not disclosed to the users of the financial statements audited under ISAs.</li> </ul> </li> </ul> <p style="text-align: right;">Cont'd</p>	FEE	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
214.	Q3 (b)	<ul style="list-style-type: none"> <li>• As this section of the Code applies to all professional and business activities of professional accountants, we are concerned that the requirements seem to have been prepared assuming that the exception will always relate to an audit or similar engagement. For example, discussion with those charged with governance is unlikely to apply to all situations accountants in business may face. Furthermore, it is unclear who “those charged with governance” might be in respect if services are provided to individuals. Therefore, this condition should not be mandatory in all cases.</li> <li>• A professional accountant employed within a firm would, depending on his or her position in the firm’s hierarchy, normally refer the relevant matter to the manager or partner responsible in the first instance, as opposed to directly seeking contact with those charged with governance of the client entity. This aspect ought to be clarified.</li> <li>• The only sentence using “shall” refers to the content of the discussion. However, as the paragraph states that the departure would only be acceptable if all of certain conditions are met we suggest it would be clearer if the procedures underlying these conditions were also worded using “shall” rather than present tense.</li> </ul>	FEE	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
215.	Q3 (b)	<p>We agree that a provision to deal with the circumstances raised in the Exposure Draft is appropriate. However, we have a number of comments on the detailed drafting (paragraph 100.11).</p> <ul style="list-style-type: none"> <li>• We suggest that the reference to unforeseen circumstances should be deleted because when circumstances are outside the control of each of professional accountant, the firm or employing organization, and the client, whether they are foreseen or unforeseen becomes irrelevant.</li> <li>• Discussion with” those charged with governance” is unlikely to apply to all situations accountants in business. Furthermore, it is unclear who “those charged with governance” might be in respect if services are provided to individuals and all small entities. Therefore, this condition should not be mandatory in all cases.</li> <li>• The only sentence using “shall” refers to the content of the discussion. However, as the paragraph states that the departure would only be acceptable if all conditions are met, we suggest it would be clearer if the procedures underlying these conditions were also worded using “shall” rather than present tense.</li> </ul>	CSOEC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
216.	Q3(b)	<p>We would recommend the following:</p> <p><i>The professional accountant's application of professional judgement in applying the conceptual framework may result, in exceptional circumstances, in the professional accountant determining that a strict application of a specific requirement of the Code is not appropriate in those circumstances and that an alternative course of action is in the public interest; the professional accountant may take such an alternative course of action provided that at all times the fundamental principles are not compromised. In such circumstances, and in reaching such a determination, the professional accountant shall discuss the matter with those charged with governance. The professional accountant may also wish to discuss the matter with the relevant regulatory authority or professional body. Where the relevant regulatory authority or professional body has established a process whereby the professional accountants can thereby seek concurrence that an exception is warranted, the professional accountant must take the steps necessary to comply with such process.</i></p> <p>We include in Appendix 2 some hypothetical situations to further illustrate where this may need to be applied.</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
217.	Q3(b)	<p>We believe that the proposals outlined in Sections 1 and 2, together with this provision, would eliminate the need for a “departure” clause along the lines proposed in 100.11, since the professional accountant will be able to apply his professional judgment as circumstances warrant.</p> <p>However, should the Board decide that the ED should not be altered in any fundamental sense, as recommended above, we believe that the Code should nevertheless include a provision that enables the professional accountant not to apply the strict provisions of the Code in limited circumstances.</p> <p>Specifically with regard to the proposed paragraph 100.11, which permits “temporary departure” from the Code’s requirements, we have several comments.</p> <p>First, we believe that the concept of “departure”, with its negative connotations, is unhelpful. Instead of “departure” we suggest that 100.11 be reframed to focus on circumstances “where it may be appropriate not to apply the provisions of the Code” (or “may be appropriate to take actions other than provided in the Code”).</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
218.	Q3(b)	<p>Second, the provision is too narrowly drawn. It limits departures to those circumstances that are beyond the control of the professional accountant, the firm <u>and</u> the client; however, such circumstances will be so rare that they give the professional accountant and the firm insufficient latitude to use their judgement in applying and complying with the fundamental principles in all circumstances in which it may be warranted. Rather than look at whether the situation is entirely outside the control of all parties involved, we believe a better test would be whether a reasonable and informed third party would conclude that the fundamental principles have not been compromised.</p> <p>Third, because the Section 100.11 is drafted so narrowly, we believe it may hamper the ability of regulators, professional bodies, and audit committees to use their judgement to determine if a professional accountant and/or firm responded appropriately to particular circumstances that fall outside the precise text of the provision. Indeed, the Code may be better with no departure provision at all than a narrow departure provision (like the current Section 100.11) that effectively ties the hands of those who may grant exceptions to a technical requirement.</p> <p>Fourth, we believe that “departures” should not be disclosed to users of the report. If, for example, audit reports disclose a “departure”, the audit report would be devalued and its users left in the position of having to determine for themselves whether the professional accountant's independence has been impaired. Although we do not agree that departures should be disclosed in the report itself, we do think it would be appropriate to disclose the departure in any written report to the audit committee, as this would allow for the firm to engage in an informed discussion with the audit committee (or those charged with governance) on independence matters and the firm’s compliance with the fundamental principles.</p> <p>Fifth, we are not sure that the notion of a “temporary” departure is strictly correct. In the context of a particular financial statement period it may not be possible to comply with the specific requirement in the Code (e.g. in the case of a deferred rotation of a key audit partner). Compliance might only be achievable in the next period. Would this be temporary?</p> <p>Finally, whilst we do not object in principle to a condition that the professional accountant discuss the matter with a regulatory body, as a practical matter in many jurisdictions there will not be a regulatory authority willing or able to enter into such discussions. Cont’d</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
219.	Q3(b)	<p>Accordingly, we concur that discussions with regulators should not be mandatory unless there is a required process for doing so. We also recognise that it may be appropriate for the professional accountant to discuss the matter with the relevant professional body (particularly in the case of accountants in business) in addition to or in lieu of the regulator. Furthermore, accountants who practice in larger networks may find the opportunity to discuss such a matter with someone in the network but outside the reporting firm to be helpful. Because of these concerns, we recommend, absent the changes proposed above which are our strong preference, that paragraph 100.11 be amended as follows:</p> <p><i>"In exceptional circumstances the application of a specific requirement in the Code may result in an outcome that a reasonable and informed third party would not regard as being in the interest of the users of the output of the professional accountant's services. In such circumstances, the professional accountant may judge it appropriate not to apply the provisions of the Code. Such a judgment would be acceptable only if all of the following conditions are met:</i></p> <ul style="list-style-type: none"> <li>• <i>The professional accountant discusses the matter with <b>those charged with governance</b>; the discussion shall include the nature of the circumstances, why in the professional accountant's judgment it is appropriate not to apply a specific requirement in the Code, and any safeguards that will be applied to ensure that the relevant fundamental principle is not compromised;</i></li> <li>• <i>The professional accountant documents the matters discussed with those charged with governance; and</i></li> <li>• <i>The professional accountant complies with the requirements of the Code at the earliest date that a resolution of the circumstances allow.</i></li> <li>• <i>Where the relevant regulatory authority or professional body has established a process whereby the professional accountants can thereby seek concurrence that an exception is warranted, the professional accountant takes the steps necessary to comply with such process.</i></li> </ul> <p><i>If there is no such formal process, the professional accountant may wish to discuss the matter with the relevant regulatory authority or professional body. If the accountant has such a discussion, the substance of that discussion shall be documented."</i></p> <p>Given these conditions we do not believe this weakens the Code. <span style="float: right;">Cont'd</span></p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
220.	Q3(b)	<p><u>Appendix 2</u>  <b>Illustrative examples to demonstrate where strict compliance with a specific provision may not be in the interests of users of the accountant’s report</b></p> <p><b>Situation 1 – Family Relationships</b>            A firm of professional accountants (more likely a small or medium-sized practice) has an audit client involved in a narrow and highly technical field such as oil exploration. A member of the firm’s national technical department, specialising in the oil industry, has recently married. His wife was employed by the client in a position to exert significant influence over the preparation of the accounting records (for example, financial controller). The wife resigned during the first month of the client’s accounting period in order to resolve any independence problems that might arise in the future.            Cont’d</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
221.	Q3(b)	<p>The individual in the technical department was not a member of the audit team; however, an issue came up towards the end of the year (with which his wife had not been involved) and he was the only person in that department capable of advising the audit team; he therefore became a member of the audit engagement team. The fact that his wife was an employee in a position to exert significant influence over the preparation of the accounting records during the period covered by the engagement or the financial statements is a technical breach of paragraph 290.128. Moreover, the “departure” provision in proposed 100.11 provides no relief since the overall situation and the firm's need to employ the technical manager on the audit team is within the firm's control. However, this result does not seem reasonable in this scenario, since it seems unlikely that the firm's objectivity would be compromised and the threat to independence is minimal; as a result, it would seem entirely appropriate to depart from this requirement in these particular circumstances, particularly given that it is in the public interest to do a proper audit and employ the best resources.</p> <p><b>Situation 2 – Recent Service with an Audit Client</b>  A start-up accounting practice takes on as an employee an individual with experience in a particular industry. The employee was formerly employed by a new audit client of the firm in a position in which she could exert significant influence over the preparation of the accounting records; however, she was employed by the client in that position only for the initial two weeks of the period covered by the audit report. Because the accounting firm is a start-up and its resources are limited, it wishes to include the new employee as a member of the audit engagement team. The audit team leader judges that it would be appropriate to depart from this requirement to ensure that the audit can be properly resourced and that the team can put in place appropriate safeguards, such as a review of that individual’s audit work by a senior person, to overcome any threats to objectivity. Nonetheless, as it is currently drafted, this situation would be a technical breach of paragraph 290.144, even though the circumstances would very likely be regarded as giving rise to minimal threat, and the departure provision would not apply as the situation is within the firm's control.</p> <p style="text-align: right;">Cont’d</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
222.	Q3(b)	<p><b>Situation 3 – Long Association of Senior Personnel</b></p> <p>A 2-partner firm has a small public interest audit client. Partner 1 has been the audit partner for 7 years and is due to rotate off the engagement at 31<sup>st</sup> December 2008. His partner is due to retire from the firm on 31<sup>st</sup> December 2009. For this reason, it is not appropriate, nor practicable, for Partner 2 to take over as engagement partner for the client for only 1 year. For various reasons, a new partner will not be admitted to the practice until 30 September 2009 (joining from another accounting practice) and thus will not be able to take over the audit engagement role until the year ending 2010. These circumstances are foreseeable; however it would seem appropriate that the firm, in such circumstances, might be able to determine and depart in the public interest from the requirements of paragraph 290.151. <u>Note:</u> 290.152 would not be applicable in such circumstances because the matter was foreseeable (and nor would 100.10 if it was argued that the resolution was within the control of the firm).</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
223.	Q3(b)	<p>As noted above, we are of the view that compliance with the conceptual framework approach and a provision of the Code specifying the conditions to satisfy when there is a conflict with another provision should not be considered an “exception to compliance.”</p> <p>We strongly believe that the conditions set forth in paragraph 100.11 are inappropriate. The critical tests for whether an exception to a specific provision of the Code should be permitted is whether, given the particular facts and circumstances, an exception is in the public interest and threats to compliance with the fundamental principles have been identified and safeguards applied to eliminate the threats or reduce them to an acceptable level. Thus, the conditions in the ED are too stringent. By limiting any exceptions to those that are “exceptional and unforeseen circumstances that are outside the control of the professional accountant, firm or employing organization, and the client”, the provision is essentially limited to acts of God.</p> <p>We believe exceptions should only be made in exceptional circumstances when the public interest is better served than if the professional accountant would have no choice but to resign from serving the client or leave his or her employment and any threats can be adequately mitigated with the application of safeguards. The conditions that we believe are appropriate would include:</p> <ul style="list-style-type: none"> <li>• The professional accountant discusses the matter with those charged with governance, including the nature of the circumstances and why, in the professional accountant’s judgment, the exception is warranted and in the public interest, taking into account the safeguards applied or to be applied, and obtains their concurrence with the professional accountant’s judgment;</li> <li>• The professional accountant documents the discussion with those charged with governance;</li> <li>• If the relevant IFAC member body or regulator has established a process, whether formal or informal, for professional accountants to seek the member body’s or regulator’s concurrence with the professional accountant’s judgment that an exception is warranted, the professional accountant must take the steps necessary to comply with such process;</li> </ul> <p style="text-align: right;">Cont’d</p>	DTT	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
224.	Q3(b)	<ul style="list-style-type: none"> <li>• The professional accountant applies safeguards that those charged with governance, and the member body or regulator where applicable, agree are appropriate under the particular facts and circumstances; and</li> <li>• The professional accountant complies with the requirements of the Code at the earliest date that compliance can be achieved.</li> </ul> <p>We believe the member body and regulator play an important role in protecting the public interest; however, we also understand that a process as described above does not exist in all jurisdictions. The condition above regarding compliance with the process established by the member body or regulator is appealing, in our view, because it does not mandate such discussions unless a process exists. Professional accountants can avail themselves of this provision in those jurisdictions where no process exists but more importantly, member bodies and regulators can implement a process to ensure they play an active role in protecting the public interest by second-guessing the professional accountant’s professional judgment.</p> <p>We strongly disagree with the condition in the ED requiring the disclosure to the users of the output of the professional services of the nature of the departure and the reasons for it. If the above conditions are satisfied, there has to be agreement at a minimum between the professional accountant and those charged with governance that the exception is in the public interest, which includes the users of the output of the professional services. Moreover, member bodies and regulators have the ability to weigh-in on those judgments. If all of such parties believe a departure from a requirement is justified and the safeguards adequately eliminate the threats or reduce them to an acceptable level, it follows that notwithstanding the fact that the Code contains a “rule”, the professional accountant has complied with the conceptual framework. Not only is disclosure unnecessary but it runs the risk of being very misleading or worse. Consequently, we would not support any clause to deal with exceptions to specific provisions that requires disclosure.</p> <p>Finally, if the Board concludes that the conditions included in paragraph 100.11 should for the most part include those that are in the ED, we strongly believe the paragraph should be deleted. By prescribing circumstances that are so narrow, even in those instances when a professional body or regulator agrees that a provision of the Code should be overridden, the professional accountant may still be in violation of the Code, an untenable position.</p>	DTT	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
225.	Q3(b)	<p>Generally we agree with the conditions under which the exception would apply. However, we have a comment regarding the provision that the nature of the departure and the reasons for the departure are appropriately disclosed to the users of the output of the professional services set out in paragraph 100.11 as one of the conditions of an acceptable departure. In the case of a financial statement audit, the way of disclosure to the users is disclosure in an audit report. However, when there is an adequate reason for a departure, we believe that the disclosure in an audit report may create a misunderstanding and an unintended negative effect. Therefore, we propose that the disclosure be made only about the services that are able to appropriately be disclosed to the users of the output of the professional services.</p>	JICPA	See above
226.	Q3(b)	<p>Furthermore, we are of the opinion that this provision should specify that an accountant is permitted to deviate from a specific requirement of the code in order to uphold a principle where the outcome of complying with the requirement would be against the public interest, not just where it would be against the interest of the user of the professional service. While the interests of the user of the service and the public interest will often coincide, this might not be the case in all situations.</p> <p>However, the example given in the explanatory memorandum is aimed at auditors and does not help to clarify how such a provision would work practically for accountants who are not working as auditors, for example accountants in industry or commerce. Section 100.11 includes a number of very specific conditions that must be met for a professional accountant to temporarily depart from a requirement of the code. We are not in support of such a rules-based approach to potential exceptions to compliance with the requirements and do not feel that all of these conditions are suitable for accountants in business (see b) below).</p> <p>It is our impression that Section 100.11 has been developed primarily with the independence requirements for auditors in mind, and so we do not feel it is appropriate to locate it in 'Part A: General application of the code'. Part A describes the fundamental principles and the approach of the code, which are relevant to all accountants, whether they work in business or in practice. The detailed conditions and requirements of proposed Section 100.11 do not sit comfortably within this more conceptual discussion. Cont;d</p>	CIMA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
227.	Q3(b)	<p>In addition, Section 100.11 appears before the most detailed prohibitions have been set out, and so might be confusing for those reading the code for the first time who have not yet come across the detailed requirements when they read Section 100.11.</p> <p>Part B of the code (and particularly Sections 290 and 291) contains a number of specific prohibitions: more so than are found in Part A or Part C. Accountants in business might not necessarily read Sections 290 or 291 as these are not relevant to them and they might therefore struggle to understand how the provision in Section 100.11, which contains such detailed conditions, relates to them. We therefore suggest that the specific conditions that must be met, and which relate overwhelmingly to auditor independence, should be moved to Part B and that Section 100.11 in Part A be amended as follows (wording changes are underlined/struck through):</p> <p><i>In exceptional and unforeseen circumstances that are outside the control of the professional accountant, the firm or employing organisation <u>and/or</u> the client, the application of a specific requirement in the Code may result in an outcome that a reasonable and informed third party would not regard as being in the <u>public interest</u> <del>of the users of the output of the professional services</del>. In such circumstances, the professional accountant may judge it necessary to depart temporarily from that specific requirement. <u>The conditions under which such a temporary departure is acceptable are further explained in Section(s) [relevant section number(s)].</u> <del>Such a departure would be acceptable only if all of the following conditions are met</del></i></p> <p style="text-align: right;">Cont'd</p>	CIMA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
228.	Q3(b)	<p><i>Section 100.11</i></p> <ul style="list-style-type: none"> <li>● <del>The professional accountant discusses the matter with those charged with governance*: the discussion shall include the nature of the exceptional and unforeseen circumstance, the fact that the circumstance is outside the control of the relevant parties, why in the professional accountant's judgment it is necessary to depart temporarily from a specific requirement in the Code, and any safeguards that will be applied:</del></li> <li>● <del>The professional accountant documents the matters discussed with those charged with governance:</del></li> <li>● <del>The nature of the departure and the reasons for the departure are appropriately disclosed to the users of the output of the professional services: and</del></li> <li>● <del>The professional accountant complies with the requirements of the Code at the earliest date that compliance can be achieved.</del></li> </ul> <p><del>The professional accountant may wish to discuss the matter with the relevant regulatory authority. If the accountant has such a discussion, the substance of that discussion shall be documented.</del></p>	CIMA	See above
229.	Q3(b)	<p>The specific conditions that must be met appear to have been formulated from the point of view of an auditor. These conditions will therefore not necessarily be appropriate for an accountant in business. For example, discussing the matter 'with those charged with governance' is not always the best option for those in business: unfortunately sometimes those charged with governance are part of the reason a threat to the principles exists.</p>	CIMA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
230.	Q3(b)	<p>As indicated in the response to (a) above, we do not believe the Code should contain a provision that permits an exception to compliance.</p> <p>However, if this is not the view that is shared by the Board and a provision that permits an exception is included, the Board may wish to consider the following points:</p> <ul style="list-style-type: none"> <li>• Should an exclusion paragraph refer to “the application of a specific requirement”, or should it refer to a “provision of the Code”, to be consistent with para. 100.10? Is there a possibility that by referring to a specific requirement that encouragement is given to “cherry-pick” requirements for which compliance is a problem given circumstances deemed to be “exceptional or unforeseen”?</li> <li>• If there are particular concerns with auditor rotation, as referenced on page vi of the Explanatory Memorandum to the Exposure Draft, this could be dealt with at the appropriate point in Section 290 of the Code, rather than in Section 100, where this provision would necessarily have a much wider application.</li> </ul>	ICAA	See above
231.	Q3(b)	<p>[W]e believe that this could be better dealt with by making it clear that the overarching principles of the Code must have precedence. If this is clearly stated then any such matters can be dealt with on that basis therefore making this exception redundant. Professional accountants would of course have to justify and document any reasons where they believe compliance with the detailed procedures to be in conflict with compliance with the spirit of the principles</p>	ICAS	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
232.	Q3(b)	<p>Bullet 1 We believe this requirement is adequately dealt with in the proposed change to paragraph 100.2, the new paragraph 100.4 and the guidance in paragraphs 100.3 to 100.10 and paragraphs 100.12 to 100.23 read with sections B and C of the Code. It should be left to the judgement of the professional accountant in the particular circumstances whether or not the matter should be discussed with those charged with governance or any other persons.</p> <p>Bullet 3 It is unclear who the “users” are to whom the ”<b>departure and reasons therefore are to be appropriately disclosed</b>”.</p> <p>Where the professional accountant has followed the guidelines in the Code with regard to client and engagement acceptance procedures and national requirements in the particular legal jurisdiction, together with the requirements in ISQC 1 and ISA 220, it is difficult, if not impossible, for the professional accountant to know what constitutes “<b>appropriate disclosures to the users of the output of the professional services</b>”. It may also be impossible for the professional accountant to identify “<b>all the users</b>”, particularly in the case where the client is regarded as a “public interest entity”.</p> <p>Any such disclosures, if taken out of context, may be misleading and open to misinterpretation.</p> <p>Bullet 4 This may be regarded as covered by paragraphs 100.2 and 100.6 to 100.10, so is unnecessary to repeat here.</p>	IRBA	See above
233.	Q3(b)	<p>We agree that in the event that the matter is discussed with the professional accountant’s Regulatory Body, it is appropriate that the substance of that discussion shall be documented.</p> <p>We have a concern, however, that should the Regulatory Body not be made aware of, <b>all relevant facts and circumstances</b> inappropriate advice may be provided quite unintentionally.</p>	IRBA	See above
234.	Q3 (b)	Not applicable	Basel	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
235.	Q3(b)	We believe a provision that permits an exception to compliance beyond what is already covered by the inadvertent exception and the conceptual framework approach is not necessary.	EYG	See above
236.	Q3(b)	Our members recognize that on rare occasions natural disasters or other catastrophic situations call for a suspension of usual requirements or for the granting of allowances or regulatory relief for actions that are violations of normal practices. However, the exception as written in the Code is too broad, and the four conditional requirements that are provided do not appear to be adequate safeguards. If the Board wishes to make some reference to exceptions associated with catastrophic situations that are regulator-approved departures from requirements, it should do so with specific exceptions for specific circumstances using much narrower and more precise language.	IOSCO	See above
<p><b>Question 3(c) If you believe that the Code should not contain a provision that permits an exception, please explain how you would deal with the types of exceptional and unforeseen situations that may be covered by paragraph 100.11</b></p>				
237.	Q3(c)	The AIA supports the permission of exceptions, subject to the conditions outlined in 100.11.	AIA	See discussion under Question 3(c) in Agenda Paper 3 Dec 2008
238.	Q3(c)	FAR SRS supports the provision.	FARS	See above
239.	Q3(c)	We support the provision.	IDW	See above
240.	Q3(c)	We support the provision that permits an exception.	CSOEC	See above
241.	Q3(c)	As discussed in (a), we believe an exemption is appropriate.	GTI	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
242.	Q3(c)	We do believe that there is a need for a provision permitting exemption, albeit not in the form currently set out in the Exposure Draft. The inclusion of paragraph 100.11 itself demonstrates that the Code has become rules-based. A truly principles-based Code would emphasise a general requirement to comply with the conceptual framework in <b>any</b> situation.	ACCA	See above
243.	Q3(c)	Not applicable.	WpK	See above
244.	Q3(c)	Not applicable.	HKICPA	See above
245.	Q3(c)	Not applicable.	ICPAS	See above
246.	Q3(c)	Not applicable.	JICPA	See above
247.	Q3(c)	Not applicable.	CICA	See above
248.	Q3(c)	Not applicable in line of the above.	MIA	See above
249.	Q3(c)	We support the inclusion of this provision.	CIMA	See above
250.	Q3(c)	The Code should contain such a provision	SAICA	See above
251.	Q3(c)	It would appear that this current provision in paragraph 100.11, as drafted, only envisages such an exception applying to the audit scenario. It may be argued that a temporary deviation from the application of the fundamental principle may be relevant in exceptional circumstances in relation to audit work. If such an exception is pursued this should be restricted to the audit scenario (eg section 290).	CARB	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
252.	Q3(c)	<p>As explained above, Section 290 already deals with exceptional circumstances such as inadvertent departure and provides adaptation or temporary measures. As professional accountants in public practice involved in audit engagements, we do not find any example that may justify such an exception. And we would like to point out that the rotation example listed in the proposal didn't convince us much.</p> <p>We believe that if, in some circumstances, an exception seems to be necessary it maybe because the Code went too far multiplying the requirements and being too stringent. We think that the Code should express more clearly that alternative safeguards in certain situations are possible and that departure from a requirement is also possible as long as it permits to be in compliance with the fundamental principles set out by the Code.</p> <p>For example, dealing with rotation, CNCC pointed out in its previous answers the risks rotation applied in too extensive a way could entail. Consequently, we suggested that all the other requirements set by the Code to ensure audit quality and independence, such as a post review insurance, independent quality control review or quality control system supervised by an oversight (as laid down by the Europeans), plus the other safeguards that are in place in certain member states such as joint statutory audit, should be taken into account.</p> <p>We strongly believe that permitting a new exception for one year does not provide an appropriate answer to the issue raised.</p>	CNCC	See above
253.	Q3(c)	<p>With regard to areas where particular difficulty can arise in applying the provisions of the Code as drafted, we would be supportive of a reasonable compliance transition period for problematic situations involving non-audit services for new clients or for entities acquired by existing audit clients. Specifically, we believe that if a prohibited non-audit service cannot reasonably be completed or terminated prior to acceptance of a new audit client or the acquisition of an entity by an existing audit client, independence should not be considered to be impaired provided that appropriate safeguards can be put in place and depending on factors such as the materiality of the non-audit service. This would, however, need to be subject to the service being completed or terminated within a reasonable (say ninety days) period of time.</p>	KPMG	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
254.	Q3(c)	We believe the relevant regulatory authority should apply judgment and address exceptional situations based on the facts and circumstances surrounding the situation. Furthermore, we believe the relevant regulator should either approve an exception (when warranted) or impose limitations based on the facts and circumstances surrounding the situation. Even if the regulator has no or limited authority to deal with the situation, requiring the professional accountant, at a minimum, to discuss it with the relevant regulator would, in practice, provide the professional accountant with the benefit of a third-party evaluation of the situation.	Basel	See above
255.	Q3(c)	For requirements that do not allow exceptions, failure to follow the requirement should be deemed a breach of the Code.	VSCPA	See above
256.	Q3(c)	We believe that there is adequate guidance provided in paragraphs 100.1 – 100.10 and paragraphs 100.12 to 100.23, which make the proposed paragraph 100.11 unnecessary. We again draw attention to paragraph 290.8 which recognises that it is impossible to define every situation, or types of <b>exceptional and unforeseen situations</b> , that create threats to independence that may be covered by paragraph 100.11.	IRBA	See above
257.	Q3(c)	An exception should be necessary but it should apply in a very limited number of circumstances. The exception as it is proposed in the exposure draft is unclear and too wide.  Especially, the sentence “in the interest of the users of the output” is unclear. The objective of the Code is to set high quality ethical standards to serve public interest. The only exception should be, in that context, the case where the application of the Code does not serve the public interest. As it is written, the client could be considered as the user of the output. There should be no exception that takes into account the interest of the client or the firm.	Mazars	See above
<b>Question 3(d) Are there any other circumstances where you believe a departure from a requirement in the Code would be acceptable?</b>				

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
258.	Q3(d)	Yes. Please see our response to (b) above.	AICPA	See discussion under Question 3(d) in Agenda Paper 3 Dec 2008
259.	Q3(d)	Please see answer above.	CNCC	See above
260.	Q3(d)	See comments in (b) above.	HKICPA	See above
261.	Q3(d)	No other circumstances would be acceptable.	SAICA	See above
262.	Q3(d)	FAR SRS agrees with the restriction.	FARS	See above
263.	Q3(d)	See our answer to 3a) above. We believe that provision should be included at the front end of the code but that these specific conditions should be moved to Part B where they are more applicable.	CIMA	See above
264.	Q3(d)	We have not identified other circumstances where a departure from a requirement in the Code would be acceptable. We are of the view that an event that is within the control of one of the relevant parties should not qualify for an exception.	ICPAS	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
265.	Q3(d)	<p>The mere inclusion of paragraph 100.11 in its current form suggests that the Code is principally rules-based. However, this paragraph could be amended in order to emphasise the fact that the Code is <b>not</b> rules-based.</p> <p>Currently, paragraph 100.11 deals with the situation where an outcome would not be perceived to be in the interests of the users of the output of the accountant’s professional services. In addition, the Code must be perceived as being fundamentally principles-based by emphasising that departure from the specific guidance is <b>required</b> where strict adherence to the guidance would result in either a failure to comply with the fundamental principles, or a failure to adequately reduce the threat to compliance.</p> <ul style="list-style-type: none"> <li>• The professional accountant <u>shall</u> discuss the matter with <u>those for whom the activity is being undertaken, or appropriate representatives such as those charged with governance*</u>; the discussion shall include the nature of the exceptional <del>and unforeseen</del> circumstance, the fact that the circumstance is outside the control of the relevant parties, why in the professional accountant’s judgment it is necessary to depart <del>temporarily</del> from a specific <del>requirement</del> <u>guidance</u> in the Code, and any safeguards that will be applied; <u>and</u></li> </ul> <p><del>The professional accountant documents the matters discussed with those charged with governance;</del></p> <p style="text-align: right;">Cont’d</p>	ACCA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
266.	Q3(d)	<p>• The nature of the departure and the reasons for the departure <del>are</del> shall be appropriately disclosed to the users of the output of the professional services, <del>and</del></p> <p>We suggest the following wording for paragraph 100.11:</p> <p><u>'Specific guidance in the Code shall be departed from in those rare circumstances where to follow the guidance would result in failure to comply with the fundamental principles or failure to reduce the threats to an acceptable level.</u></p> <p>In exceptional <del>and unforeseen</del> circumstances that are outside the control of the professional accountant, the firm or employing organization, and the client, the application of <del>a specific requirement guidance</del> in the Code may result in an outcome that a reasonable and informed third party would not regard as being in the interest of the users of the output of the professional services. In such circumstances, the professional accountant may judge it necessary to depart <del>temporarily</del> from that specific <del>requirement guidance</del>. Such a departure would be acceptable only if <u>alternative safeguards are applied and appropriate disclosure made, including the following</u><del>all of the following conditions are met:</del></p> <ul style="list-style-type: none"> <li><del>• The professional accountant complies with the requirements of the Code at the earliest date that compliance can be achieved.</del></li> </ul> <p><u>The professional accountant shall comply with the specific guidance of the Code at the earliest date that compliance can be achieved.</u></p> <p style="text-align: right;">Cont'd</p>	ACCA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
267.	Q3(d)	<p><u>If providing an assurance service, the professional accountant shall document the substance of the departure and details of any discussions held or decisions made concerning that issue. In other circumstances, when non-assurance services are provided such as accounting, taxation, business advice, being an accountant in business, etc, it may be in the best interests of the professional accountant to document this.</u></p> <p>The professional accountant may wish to discuss the matter with the relevant regulatory authority. If the accountant has such a discussion, the substance of that discussion shall be documented.’</p> <p>The term ‘users of the output of the professional services’ should be defined, as it could be interpreted as ‘some of the users’, rather than ‘all of the known and suspected users’.</p> <p>Currently, paragraph 100.12 says that the conceptual framework is applied when the specific guidance does not cover a situation, and 100.11 (as redrafted above) deals with the position when a situation is covered by the specific guidance, but the guidance would result in (i) a failure to adhere to the fundamental principles, (ii) failure to reduce the threats to an acceptable level or (iii) an outcome that is not regarded as being in the interest of the users of the output of the professional services. This is a more unusual situation, and so the message would be more clearly conveyed if the order of paragraphs 100.11 and 100.12 was swapped.</p>	ACCA	See above
268.	Q3(d)	Departure on the transitional provision on providing non-assurance services once the Code is effective for services already contracted for and on-going should be completed within 6 months after that date. To consider transitional provision be extended beyond 6 months in extenuating circumstances.	MIA	See above
269.	Q3(d)	We are reluctant to provide an example of a departure from the requirement. The facts and circumstance should be evaluated in each case.	Basel	See above
270.	Q3(d)	Acceptable departures from Code requirements should be limited to events that are NOT within the control of the relevant parties.	VSCPA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
271.	Q3(d)	<p>The AIA believes that exceptions to the code should not be granted lightly. There may, however, be cases where the “unforeseen” element of the condition could create problems. For example, an accountant may have a close family member who is involved in a bank’s lending decision-making process. In such a case, the possibility that both individuals might have to deal with one another at some point in the future is foreseeable, but the resulting potential for a conflict of interest is not necessarily insurmountable if a loan application is submitted.</p> <p>It may be that removing the words “and unforeseen” from the first sentence of 100.11 would be sufficient to deal with the possibility that further exceptions could be acceptable and/or justifiable. This would mean that any exception would both have to be in exceptional circumstances and result in “an outcome that a reasonable and informed third party would not regard as being in the interest of the users of the output of the professional services”.</p> <p>The AIA is of the opinion that these two conditions would encompass any acceptable exceptions that could be justified in terms of an event being within the control of one of the parties.</p>	AIA	See above
272.	Q3(d)	<p>The criterion “outside the control of each of the professional accountant, the firm or employing organization, and the client” used in paragraph 100.11 is necessary and sufficient to prevent misuse.</p> <p>However, we propose an additional wording of the last sentence of this paragraph regarding to the documentation as follow:</p> <p><i>« When providing an assurance service, the professional accountant shall document the substance of the departure and details of any discussions held or decisions made concerning that issue. In other circumstances, when non-assurance services are provided such as accounting, taxation, business advice, being an accountant in business, etc, it may be in the best interests of the professional accountant to document this »</i></p>	CSOEC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
273.	Q3(d)	<p>Request 3(d) (page xii) asks if an event that is “within the control of one of the relevant parties” should qualify for the proposed exemption. NASBA believes that no exemption should be provided for events that are within the control of a party. If it is within the control of a party, the “event” could be modified or avoided by the party.</p> <p>NASBA also believes that an example of an exceptional and unforeseen circumstance outside of the control of the client should be given in the proposed Section 100.11.</p>	NASBA	See above
274.	Q3(d)	<p>While we are contrary to a provision that permits an exception, we believe that business combinations is one situation that may give rise to instances where the strict adherence to the Code may be disadvantageous to the client and/or users. In addition, we have analyzed the Code and identified a small number of such situations where strict compliance with the Code may lead to unintended consequences. We believe these situations do not require a general provision permitting an exception as that presented in paragraph 100.11 but rather additional guidance in the related paragraphs.</p> <p>We are unaware of other circumstances where a departure from a requirement in the Code would be acceptable. We believe that, with the changes we recommend in Q 3 (c), such circumstances should be avoidable.</p>	EYG	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
275.	Q3(d)	<p>In connection with business combinations, there may be instances where an audit client has acquired a company to which the audit firm or a member of its network provides significant services or has significant relationships that would become prohibited once the acquisition is completed and the acquired company becomes a related entity of the audit client. In such situations, these services are normally terminated prior to the closing of the acquisition. However, there may be circumstances, due to the limited amount of time between the announcement of the transaction and the closing and the proximity of the transaction to the year-end, that termination of all such services and relationships may not be possible notwithstanding the best efforts of the audit firm and its audit client. Accordingly, we believe some provision should be included in the Code to assist audit firms and their clients to overcome these situations without violating the Code. In this connection and in relation to non-audit services, Paragraph 290.159 provides that “the inadvertent provision of a proscribed non-audit service to a related entity, division or in respect of a discrete financial statement item of such a client does not compromise independence if any threats have been reduced to an acceptable level by arrangements for that related entity, division or discrete financial statement item to be audited by another firm or when another firm re-performs the non-assurance service to the extent necessary to enable it to take responsibility for that service.</p> <p>We believe a similar provision in connection with business combinations would provide an opportunity to resolve such situations while at the same time providing an incentive to the audit client (i.e. the additional cost to be incurred as a result of engaging another accounting firm) to do its best to terminate the services prior to completion of the acquisition. We also believe that such instances should be addressed through discussion with either the applicable regulatory authority or, in the absence of such, the appropriate professional body as well as those charged with governance in the audit client.</p> <p>In connection with other relationships in a business combination, we believe that the combination of the conceptual framework and the provisions for inadvertent violations as well as the suggestions indicated in the paragraphs below would be sufficient to enable a resolution of situations of potential non-compliance.</p>	EYG	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
276.	Q3(d)	We believe that, along with the revisions to existing Section 290, setting forth expansive independence requirements, it is essential that additional guidance be offered for the effect of client merger and acquisitions. These mergers present major issues where firms providing non-audit services to its current clients have inadvertently been tainted with independence violations.	BDO	See above
277.	Q3(d)	Grant Thornton International does not believe there are any other circumstances where a departure from the Code is warranted. Paragraph 100.10 and 290.33 discussing inadvertent violations, specific paragraphs within the Code where exceptions are explicit and the inclusion of the suggested departure paragraph above would provide sufficient guidance for the professional guidance to use his or her judgment in determining if a departure from the Code is warranted.	GTI	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
278.	Q3(d)	<p>Section 2 - Mergers and acquisitions</p> <p>Independent of the points raised in Section 1 above, we believe that the Code should specifically address, within Sections 290.156 to 290.161, the issues that may arise as a result of client mergers and acquisitions. Mergers and acquisitions are common circumstances and the Code should accommodate them as such.</p> <p>In many merger and acquisition situations, an audit client of the firm acquires (or merges with) another entity that is not an audit client of the firm but with which the firm has service or other relationships that would threaten the firm’s independence with respect to the client’s financial statements. Often there is little notice of such events. In such situations, the firm and client may put in place safeguards to reduce any threat to an acceptable level; in the case of services or business relationships, the firm or client may be able to put in place transitional arrangements to reduce (or eliminate) the activity giving rise to a threat or violation of a requirement. In practice, certain regulators will agree to such safeguards but many regulators will not provide this facility. The ED does not allow for safeguards in these circumstances and accordingly resignation may well be the only possible outcome. (Because mergers and acquisitions are within the client's control, the proposed departure clause (Section 100.11) does not provide the client with any relief for these situations; nor arguably would the situation be inadvertent.)</p> <p>As merger and acquisition activity is a normal business activity, we believe that it is a significant omission that the Code remains silent on the point. Indeed the omission of a provision that provides clients and professional accountants with a sensible way of dealing with the implications of mergers and acquisitions could leave an entity being unable to find independent auditors at short notice.</p> <p style="text-align: right;">Cont’d</p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
279.	Q3(d)	<p>To address this situation, we propose adding the following as a new provision to the Code:  <i>If after the commencement of the engagement period an audit client of the firm acquires or merges with another entity that is not an audit client of the firm or a network firm, and the financial statements of the acquired or merged entity will be included in the financial statements on which the firm will express an opinion, the firm shall determine whether it (or any network firm) has any interests or relationships with the acquired or merged entity that would threaten the firm's independence of the audit client</i></p> <p><i>If such interests or relationships exist, the firm shall determine whether safeguards will eliminate such threats or reduce them to an acceptable level. In such circumstances, the professional accountant [shall] discuss the matter with those charged with governance. If the firm determines that safeguards will eliminate or reduce the threats to its independence to an acceptable level, the firm shall put the safeguards in place. In the case of services or business relationships that cannot be terminated immediately, the firm may agree to transitional arrangements with the audit client so that it may terminate such services or relationships as soon as possible; in the meantime, the firm and the client should put in place safeguards to reduce any threats created by the merger or acquisition to an acceptable level. The professional accountant may wish to discuss the matter with the relevant regulatory authority or professional body. If the firm determines that neither it nor the client will be able to apply safeguards or transitional arrangements to reduce sufficiently any threat to independence, the firm shall withdraw from the audit engagement</i></p>	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
280.	Q3(d)	<p>In our opinion, the criterion “outside the control of each of the professional accountant, the firm or employing organization, and the client” is necessary to prevent misuse. For example, were a circumstance within the control of the entity only, auditors could be subject to inappropriate “disqualification” at the instigation of the audit client, for example, when a disagreement between the auditor and the entity occurred. We therefore generally support retaining this text, subject to our comment above suggesting deletion of the term “unforeseen” as a criterion.</p> <p>This notwithstanding, we would also like to point out that there is a definite need for some form of practicability consideration to be applied in isolated circumstances. We believe such flexibility will be necessary, to allow for specific situations that are under the control of the client but not under the control of the professional accountant, the firm or employing organization and where, for practicability reasons, an isolated departure may be in the public interest. For example, in the event of a M&amp;A transaction, a parent company may acquire another substantial group; the Code requires that the auditor of the parent company be independent of all newly acquired subsidiaries as of the acquisition date. Such situations commonly lead to the auditor of the parent company “becoming” not independent by dint of non-audit services prohibited under the Code provided to even a single newly acquired entity. In order to fully comply with the letter of the independence requirements of the Code, the parent company auditor would either have to become fully aware of and terminate all such services before the transaction date or resign from the audit. In certain very large and complex merger situations the former may not be practicable whilst the latter cannot be in the public interest. We suggest a new paragraph be added to deal with such situations, along the lines of paragraph 100.10 where violations subsequently promptly corrected may be deemed not to compromise compliance with the fundamental principles of the Code.</p>	IDW	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
281.	Q3(d)	<p>We agree with the restriction. The criterion “outside the control of each of the professional accountant, the firm or employing organization, and the client” is necessary to prevent misuse, for example, were a circumstance within the control of the entity only, auditors could be subject to “disqualification” in inappropriate circumstances, such as when disagreement between the auditor and the entity occurs.</p> <p>We propose below, an amendment to the ED wording which would address our concerns.</p> <p><u>“A specific requirement in the Code shall be departed from in those rare circumstances where to apply that requirement would result in failure to adhere to the fundamental principles or failure to reduce the threats to an acceptable level.</u></p> <p><u>In addition, in exceptional and unforeseen</u> circumstances that are outside the control of the professional accountant, the firm or employing organization, and the client, the application of a specific requirement in the Code may result in an outcome that a reasonable and informed third party would not regard as being in the interest of the users of the output of the professional services. In such circumstances, the professional accountant may judge it necessary to depart temporarily from that specific requirement.</p> <p>Such a departure would be acceptable only if all of the following conditions are met:</p> <ul style="list-style-type: none"> <li>• <u>The professional accountant shall apply alternative safeguards;</u></li> <li>• <u>The professional accountant shall use his professional judgment;</u></li> </ul>	FEE	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
282.	Q3(d)	<ul style="list-style-type: none"> <li>• The professional accountant <del>shall discuss</del> the matter with <u>those for whom the activity is being undertaken, or appropriate representatives such as those charged with governance</u>; the discussion shall include the nature of the exceptional <del>and unforeseen</del> circumstances, the fact that the circumstances <del>are</del> outside the control of the relevant parties, why in the professional accountant’s judgment it is necessary to depart <del>temporarily</del> from a specific requirement in the Code, and any safeguards that will be applied;</li> <li>• <u>If providing an assurance service, the professional accountant shall document the substance of the departure and details of any discussions held or decisions made concerning that issue. In other circumstances, when non-assurance services are provided such as accounting, taxation, business advice, being an accountant in business, etc, it may be in the best interests of the professional accountant to document this.</u> <del>The professional accountant documents the matters discussed with those charged with governance; and</del></li> <li>• <del>The nature of the departure and the reasons for the departure are appropriately disclosed to the users of the output of the professional services; and</del></li> <li>• The professional accountant <del>shall comply</del> with the requirements of the Code at the earliest date that compliance can be achieved.</li> <li>• <del>If</del> <u>The professional accountant may wish to discuss</u> the matter with the relevant regulatory authority, <del>if the accountant has such a discussion,</del> the substance of that discussion shall be documented. <u>If applicable, the professional accountant also documents that the regulators have accepted the alternative safeguards applied and approved the action taken by both the professional accountant and those for whom the activity is being undertaken, or appropriate representatives such as those charged with governance.</u></li> </ul>	FEE	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
283.	Q3(d)	<p>We believe that there are events that are within the control of one of the relevant parties that should qualify for an exception. For example, when a company to which the firm provides a non-assurance service that it is prohibited to provide to audit clients is acquired by an audit client and the company can't find a firm to provide that service within a reasonable time period, we believe that a departure is acceptable until the issue is resolved, subject to the firm applying safeguards.</p>	JICPA	See above
284.	Q3(d)	<p>In our opinion, many corporate transactions, such as mergers and acquisitions, whilst certainly under the control of the client, bear the risk that applying the Code without any exception might lead to results which are not in the public interest.</p> <p>Where, for example, the parent company of a large group acquires another group, the auditor of the parent has to be independent of all new subsidiaries (entities of the acquired group) as of the date of the acquisition. Consequently, if the auditor of the parent is providing non-audit services to the newly acquired entities, and if such services would be prohibited under the provisions of the Code, the auditor would have to terminate these services before the transaction date in order to be independent or otherwise resign from the audit of the group accounts. This would even be the case, when such a service is provided one day after the closing date of the transaction. In certain very large and complex merger situations such a result cannot be in the public interest. Rather it would be more appropriate to apply sufficient safeguards to mitigate these threats to independence.</p>	WpK	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
285.	Q3(d)	<p>As noted, we do believe there are circumstances that may be within the control of one of the relevant parties where an exception to a particular provision is warranted. We have identified several examples, which are not intended to be all-inclusive. They do demonstrate, however, that real-life situations do arise and the rigid application of “rules” could lead to an answer that is not only nonsensical but certainly not in the public interest.</p> <p>We are particularly concerned that there are many corporate transactions, such as mergers and acquisitions, where independence issues arise that would be deemed as violations without any remedy. For example, assume a very large global company acquires another company. The auditors of the parent would have to be independent of the new subsidiary as of the date of the acquisition. If the acquired company had engaged the auditors to provide a non-audit service that was prohibited by the Code, such service would have to be terminated before the transaction closed. If completed one day after the closing, the parent’s auditor would have to resign. This result cannot be in the public interest and we believe most if not all audit committees and regulators of listed entities would agree that the principle auditor should not resign when there may be quite appropriate safeguards to mitigate any threats to independence. Because of the importance of addressing corporate transactions specifically in the Code, we believe a separate paragraph should be incorporated into the Code, whether or not a general provision for exceptions is included. A sample paragraph covering this issue is included in the attached marked-up Code.</p> <p>An issue may arise in the area of family relationships. The Code provides that if an immediate family member of a member of the audit team is (or was) a director or officer of an audit client or otherwise in a position to exert significant influence over the preparation of the accounting records or the financial statements of the client during any period covered by the engagement or the financial statements, the threat is so significant that the audit team member must be removed from the team. If this safeguard is not applied, the firm is required to resign from the audit. It is important to keep in mind that the definition of “audit team” includes not only those on the engagement team, but others, including the chain of command.</p> <p>We identified, by way of example, a set of circumstances where we believe either the threat to independence is nominal or safeguards could be applied to mitigate the threats identified. Assume that the spouse of a partner in the chain of command worked for the audit client and received a new position in January.</p> <p style="text-align: right;">Cont’d</p>	DTT	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
286.	Q3(d)	<p>The partner identified the issue during the spouse’s first month in the prohibited role. Once identified, the client took immediate steps to reassign the spouse to another position that would not be problematic or alternatively the spouse left the employ of the client. Under this scenario, one might argue that any threat to independence is not significant and that no safeguards are even required, depending on what the spouse did during the short tenure in the role. In summary, the actual threat may be minimal or other safeguards might be possible; as such, application of the “rule” is a disproportionate response in this circumstance.</p> <p>Depending on the Board’s decision regarding internal audit services, this may be another area where there may be violations of a provision of the Code without there being a threat to independence that is unacceptable. If the IESBA adopts the position included in the ED that would prohibit all internal audit outsourcing services to public interest entities (other than a non-recurring service covered by paragraph 290.201), even immaterial internal audit services would constitute a violation of the Code. The inadvertent violation sections would not apply in those instances when the provision of such services was clearly not inadvertent, yet no significant threat to independence may exist because of the immateriality of the service.</p> <p>Our final example is where an audit team member accepts gifts or hospitality that is other than trivial or inconsequential. In such a case, a violation of the Code occurs and the team member may not have inadvertently accepted the gift. The provision would seem to suggest that the auditor must resign, since there is no mention of the possibility to apply safeguards, including the possible safeguard of removing the individual from the audit team and having his or her work reviewed.</p> <p>As the above examples clearly illustrate, the Code was written taking a principles-based approach, which we strongly support. We also recognize the importance of having a robust Code; however, in strengthening the Code by use of the word “shall”, coupled with the many other changes that have been made, particularly in Section 290, there are too many instances when one could conjure up a realistic scenario where the professional accountant will now be seen as having violated the Code. In cases such as those noted above, and likely many others, the public is not well-served if the application of the provisions in the Code lead to questionable or erroneous results.</p>	DTT	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
287.	Q3(d)	<p>Conceptually, there may be very rare circumstances where compliance with a specific requirement might conflict with a fundamental principle. We suggest that the Code might address these extremely rare circumstances by requiring the professional accountant to be able to demonstrate to the appropriate regulatory authority and/or those charged with governance how compliance with the specific requirement would conflict with or compromise the fundamental principle and how alternate actions or safeguards allowed compliance with the fundamental principle.</p> <p>Section 140 of the Code addressing Confidentiality is one example where the requirements of the Code might conflict with an underlying principle. A professional accountant might believe that it is necessary to breach confidentiality in order to “blow the whistle” for the greater good. We are not certain whether paragraph 100.11 would permit such a departure from maintaining confidentiality, and if it does not, should it?</p> <p>We are also concerned that the third bullet of paragraph 100.11, which requires appropriate disclosure of the nature of the departure and reasons for the departure to the “users of the output of the professional services” may be too restrictive. We believe that it may not be possible to provide appropriate disclosure to all of the users in every instance and we would suggest “users” be modified to “known users” or something similar.</p>	CICA	See above
288.	Q3(d)	<p>We have not identified any other circumstances where we believe a departure from a requirement in the Code would be acceptable. In response to the specific example queried for this point, we believe that an event that is within the control of one of the relevant parties should usually be addressed and resolved with a view to ensuring compliance.</p>	ICPAC	See above
289.	Q3(d)	<p>We have not identified other circumstances where a departure from a requirement in the Code would be acceptable. We are of the view that an event that is within the control of one of the relevant parties should not qualify for an exception.</p>	ICPAS	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
290.	Q3(d)	We are concerned that there are many circumstances, for example corporate transactions, such as mergers and acquisitions, where independence issues arise that could give rise to a departure from the code which are neither exceptional nor unusual. For example, assume a very large global company acquires another company. The auditors of the parent would have to be independent of the new subsidiary from the effective date of acquisition. If the company acquired had engaged the auditors to provide non-audit services that are prohibited by the Code, such services would have to be terminated before the transaction is closed. If completed one day after the closing, the parent’s auditor would have to resign. This result may not be in the public interest and audit committees and regulators of listed entities would probably prefer that the principal auditor should not resign when there may be appropriate safeguards, and where the auditor determines that any threats to independence have been reduced to an acceptable level.	IRBA	See above
291.	Q3(d)	No – It is very important that no exception be introduced for circumstances under the control of the accountant or its client. The objective of IFAC and IESBA is to serve public interest. If the Code sets principles that are high quality principles that serve public interest, it is not possible to introduce an exemption that permits to depart from the Code that is not in the interest of the public.	Mazars	See above
<p><b>Question 4</b>  <b>The IESBA is of the view that the proposed modification to focus the application of the conceptual framework throughout the Code, and the related documentation requirements in Sections 290 and 291, on threats that are not at an acceptable level will result in a more efficient and effective application of the framework approach.</b></p>				
292.	Q4	We agree that focus on threats that are not at an acceptable level, rather than clearly insignificant, is an appropriate threshold and results in a more efficient and effective application of the framework approach. We also support the related documentation requirements.	AICPA	See discussion under Question 4 in Agenda Paper 3 Dec 2008
293.	Q4	We agree.	IDW	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
294.	Q4	Agree.	MIA	See above
295.	Q4	We agree and believe that focusing on threats that are not at an acceptable level is a significant improvement of the documentation requirements in Section 290 and 291.	WpK	See above
296.	Q4	SAICA's Ethics Committee agrees.	SAICA	See above
297.	Q4	FAR SRS supports the change in the wording.	FARS	See above
298.	Q4	We agree with the IESBA's view that the proposed modification will result in a more efficient and effective application of the framework approach.	ICPAS	See above
299.	Q4	I agree	RM	See above
300.	Q4	We are comfortable with this.	CIMA	See above
301.	Q4	We agree. We believe that the proposed modification to focus the application of the conceptual framework throughout the Code, and the related documentation requirements in Sections 290 and 291, on threats that are not at an acceptable level will result in a more efficient and effective application of the framework approach.	JICPA	See above
302.	Q4	Agree. This encourages the professional accountant to carefully consider whether a threat substantially impair the accountant's judgment in complying with the fundamental principles.	Mark Shum	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
303.	Q4	The Committee concurs with IESBA that the proposed modification to focus the application of the conceptual framework throughout the Code, and the related documentation requirements in Sections 290 and 291 on threats that are not at an acceptable level, will result in a more efficient and effective application of the framework approach.	VSCPA	See above
304.	Q4	We agree that the proposed modification to focus the application of the conceptual framework throughout the Code, and the related documentation requirements in Sections 290 and 291, on threats that are not at an acceptable level will result in a more efficient and effective application of the framework approach.	HKICPA	See above
305.	Q4	The AIA supports the conceptual framework approach. It is difficult, if not impossible, to measure the efficiency and effectiveness of the application of any code of ethics. The approach taken by the proposed modifications has the advantage of clarity and should at least offer the possibility of improvements to both efficiency and effectiveness.	AIA	See above
306.	Q4	We believe that it is important for the Conceptual Framework to focus on reducing those threats to a level that a reasonable and informed third party would conclude were at an acceptable level. The Code's requirements requiring documentation enhances the professional accountant's responsibility in compliance with the fundamental principles. Additionally, we support the format of providing descriptions and examples of the five categories of threats in Section B. The format provides a clearer, concise understanding of the threats as created by various relationships. This format sets forth a positive action requiring evaluation of fact patterns, and therefore placing the responsibility on the professional accountant to evaluate any threats and apply appropriate safeguards.	BDO	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
307.	Q4	We are supportive of the focus on threats that are not at an acceptable level with movement away from the concept of clearly insignificant. We believe that the increased focus on significant threats will allow professional accountants to focus their attention and resources on these threats. The focus on significant threats appears to enhance the principles-based approach since the professional accountants focus will be on the more pertinent threats rather than all threats. We also believe that the focus promotes conformity of application and enhances the understanding of the rules by the professional accountants charged with compliance. We also concur with the Board's conclusions that certain significant threats may inherently be of such significance that the application of safeguards cannot sufficiently reduce the threats to an acceptable level.	GTI	See above
308.	Q4	We agree.	CARB	See above
309.	Q4	The Joint Accounting Bodies agree that the focus on the application of the conceptual framework on threats that are not at an acceptable level will result in a more efficient and effective application of the framework approach. As noted previously, we believe that the Code still presents as a principles-based document, which does not diminish the accountant's need to exercise professional judgement.	ICAA/ CPA Aus/ NIA	See above
310.	Q4	We agree with IESBA's view that focusing on threats that are not at an acceptable level will result in a more efficient and effective application of the framework approach.	ICPAC	See above
311.	Q4	We agree with the IESBA's view that the proposed modification will result in a more efficient and effective application of the framework approach.	ICPAS	See above
312.	Q4	We believe that the proposed modification is appropriate.	CICPA	See above
313.	Q4	We agree that this is a positive move that reaffirms the principles based approach to the Code.	EYG`	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
314.	Q4	We support the approach of focusing the application of the conceptual framework and the related documentation requirements on threats that are not at an acceptable level.	KPMG	See above
315.	Q4	agree with the modification to focus the application of the conceptual framework and related documentation requirements in Sections 290 and 291 on threats that are not at an acceptable level.	EYG	See above
316.	Q4	We strongly support the changes in the Code that focus on threats that are not at an acceptable level and believe this is a significant improvement.	DTT	See above
317.	Q4	We agree that the proposed modification to focus the application of the conceptual framework on threats that are “not at an acceptable level” improves the application of the framework approach.	CICA	See above
318.	Q4	We believe that the existing use of the terms “clearly insignificant” and “acceptable level” within the Code has the potential to create unnecessary ambiguity for accountants when applying the conceptual framework, and thereby achieving an appropriate outcome, in situations where they are faced with threats to compliance with the fundamental principles. Accordingly, we agree with the proposed modification and believe it will result in a more efficient and effective application of the framework approach.	RSM	See above
319.	Q4	NIVRA agrees with the IESBA that the proposed modification to focus the application of the conceptual framework throughout the Code, and the related documentation requirements in Sections 290 and 291, on threats that are not at an acceptable level will result in a more efficient and effective application of the framework approach. We also believe the proposed definition of “acceptable level” is clear.	NIVRA	See above
320.	Q4	APESB agrees with the IESBA view.	APESB	See above
321.	Q4	We support the proposal to eliminate the reference to “clearly insignificant” in favour of “acceptable level” and believe that the explanatory definition and guidance is appropriate.	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
322.	Q4	<p><i>We understand Question 4 to mean that our views are sought on whether the proposed amendments to the Code achieve the following:</i></p> <ol style="list-style-type: none"> <li><i>1. The focus on the application of the conceptual framework throughout the code will result in a more efficient and effective application of the framework approach ; and</i></li> <li><i>2. The introduction of the documentation requirements in Sections 290.29 and 291.29 will result in a more efficient and effective application of the framework approach.</i></li> </ol> <p>In the case of the <i>first point</i>: we support the <i>focus on the application of the conceptual framework</i>, in particular in paragraph the proposed amendments to paragraph 100.2 with the three step process to identify and evaluate threats, and apply safeguards when necessary to reduce threats to an “<b>acceptable level</b>”, rather than the previous requirements to determine when threats are “<b>clearly insignificant</b>” and believe this is a significant improvement. Although an “acceptable level” is not defined, it reflects the exercise of judgement that the professional accountants and auditors, in particular, exercise daily in making client and engagement acceptance and retention decisions.</p> <p>In the case of the <i>second point</i>: the inclusion of the proposed documentation requirements in Sections 290.29 relating to independence of the professional accountant / auditor for audit and review engagements and in Section 291.29 relating to independence of the professional accountant / auditor when performing other assurance engagements clearly differentiates the different services provided and how evidence that the independence requirements are met are to be documented. To the extent that the documentation requirements can be completed as part of the firm’s and engagement staff processes for meeting both ISQC 1 and ISA 220 requirements for client and engagement acceptance, continuance and the performance of the professional engagement, they will contribute to a more effective alignment of the Code with the International Standards on Auditing, International Standards on Review Engagements and International Standards on Assurance Engagements We are unable to comment, however, on whether these amendments will result a more efficient application of the framework approach in the Code</p>	IRBA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
323.	Q4	<p>We agree: ethical behaviour will be enhanced by allowing greater focus on those threats to compliance that are not at an ‘acceptable level’. However, it does not seem ideal for readers to need to go to the definitions to understand such a fundamental aspect of the Code as ‘acceptable level’ (what needs to be done is explained quite clearly in the discussion memorandum but less well in the Code itself). We also think it might be helpful to include some additional discussion as to what is required to be done in terms of when threats are assessed at various levels, along the lines included in the explanatory memorandum.</p> <p>In terms of the definition of ‘acceptable level’ it is important that the accountant’s professional judgement is also mentioned: that a threat must be at acceptable level to the professional accountants as well as to reasonable and informed external perception.</p>	CCAB	See above
324.	Q4	<p>We support the change in the wording: this is a welcome change. ‘Clearly insignificant’ was set at too low a level in determining what threats needed to be safeguarded against, with the possible result that significant threats were being obscured by a myriad of less significant ones.</p> <p>However, the definition of ‘acceptable level’ focuses entirely on external perception. The professional accountant should be happy that threats are at an acceptable level, as well as the reasonable and informed third party.</p>	ICAEW	See above
325.	Q4	<p>We support the replacement of ‘clearly insignificant’ by ‘an acceptable level’, but, like ICAEW, feel that the definition of ‘acceptable level’ should not be focussed entirely on external perception. The professional accountant should be happy that threats are at an acceptable level, as well as the reasonable and informed third party.</p>	LSCA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
326.	Q4	<p>We support the change in the wording. ‘Clearly insignificant’ is set at such a level that in determining and documenting what threats needed to be safeguarded against, much time is spent paying attention to insignificant threats rather than those which actually impair, or appear to impair, independence.</p> <p>We note that the definition of 'acceptable level' focuses entirely on external perception. In addition it should be clear that the professional accountant should be happy that threats are at an acceptable level, as well as the reasonable and informed third party.</p> <p>It does not seem ideal for readers to need to go to the definitions at the back of the Code to understand such a fundamental aspect of the code as ‘acceptable level’, especially as ‘acceptable level’ is a very subjective term. We recommend that a fuller explanation be given early in the Code as to what the professional accountant is required to do or not do in relation to the determination of the acceptable level and what he is required to do or not do related to the documentation of threats that are not at an acceptable level.</p>	FEE	See above
327.	Q4	<p>We agree with the IESBA on this issue. We do however believe that the user’s understanding of the Code would be improved by including content on what is meant by “acceptable level” in the main text. Indeed the discussion memorandum contains a good explanation of this phrase and this could be repeated to ensure that a proper explanation of this important phrase is included in the main text as opposed to it merely being relegated to the definitions section.</p>	ICAS	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
328.	Q4	<p>Generally, we agree that the assessment of threats with reference to the perception of a reasonable and informed third party and whether or not the threats are at an ‘acceptable level’ is a useful device, and there is clearly an opportunity for enhanced clarity in this respect. However, an ‘acceptable level’ is a higher level of risk than ‘clearly insignificant’, and great care should be taken by the IESBA to be seen to be maintaining ethical standards in the light of the comments made under (ii) above.</p> <p>In particular, there are occasions when it is considered necessary to set the standard higher and assess any threats that are not ‘trivial and inconsequential’ (as demonstrated by paragraph 291.28). Another example of this is when considering the need to document conclusions and related discussions regarding threats to independence (paragraphs 290.29 and 291.29). There is a large degree of subjectivity required when assessing whether or not the threats are at an ‘acceptable level’, and so we believe that it is still necessary to document independence conclusions and related discussions in any situation where the threat is not trivial and inconsequential.</p>	ACCA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
329.	Q4	<p>We believe that the changes made to the descriptions of threats to compliance with the fundamental principles and the recognition that threats are created in circumstances even where they are not significant, helps in the understanding of the application of the threats and safeguards approach. The elimination of references to ‘clearly insignificant’ in favour of ‘acceptable level’ also helps with this understanding.</p> <p>However, we believe that, in light of this change, the IESBA needs to reconsider the documentation requirements. We also believe that further thought needs to be given to clarifying the thinking on safeguards. As currently drafted we believe that some ‘safeguards’ are matters to be taken into account when evaluating a threat rather than actions to be taken to mitigate a threat (see above).</p> <p><u>Strengthening the requirements regarding documentation</u> Paragraph 290.29 establishes a link with ISAs<sup>4</sup> and supplements this with a requirement to document threats that require the application of safeguards and the safeguards applied. The threats to be documented will be those that the auditor does not believe are at an acceptable level.</p> <p>We believe that documentation:</p> <ul style="list-style-type: none"> <li>• Enhances the clarity and rigour of the professional accountant’s thinking and the quality of his or her judgments,</li> <li>• Facilitates an effective review and evaluation of the evidence obtained and conclusions reached, and</li> <li>• Enables internal quality control reviews and external monitoring inspections to be undertaken.</li> </ul> <p>A key judgment is the evaluation of threats to determine which are not at an acceptable level. To achieve this in a rigorous and transparent manner we believe it is essential that all threats (other than those that are trivial and inconsequential) should be documented. Documentation in accordance with ISA 220 is not sufficiently specific to achieve these objectives.</p> <p style="text-align: right;">Cont’d</p>	APB	See above

<sup>4</sup> Paragraph 26 of the Clarity version of ISA 220 requires documentation of  
(a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved, and

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
330.	Q4	<p>In our view the IFAC Code should establish more specific documentation requirements including a requirement that the audit engagement partner shall ensure that his or her consideration of objectivity and independence is appropriately documented on a timely basis. Guidance (or perhaps the requirement itself) should make clear that this includes documenting:</p> <ul style="list-style-type: none"> <li>• all threats identified, other than those which are trivial and inconsequential , and the process used in identifying them;</li> <li>• safeguards adopted and the reasons why they are considered to be effective;</li> <li>• conclusions from any review by an engagement quality control reviewer or an independent partner;</li> <li>• the audit engagement partner’s overall assessment of threats and safeguards; and</li> <li>• matters communicated with those charged with governance regarding auditor independence issues.</li> </ul>	APB	See above
331.	Q4	<p>We support the change in the wording and the need for a professional accountant to apply the framework in any circumstances.</p> <p>We agree with the comment of CNCC about this question and are generally comfortable with the change to the description of threats in paragraph 100.13</p> <p>However, it does not seem ideal for readers to need to go to the definitions at the back of the Code to understand such a fundamental aspect of the code as ‘acceptable level’, especially as ‘acceptable level’ is a very subjective term. We recommend to that a fuller explanation be given early in the Code as to what the professional accountant is required to do or not in relation to the determination of the acceptable level and what he is required to do or not related to the documentation of threats that are not at an acceptable level.</p>	CSOEC	See above

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(b) Conclusions on compliance with independence requirements that apply to the audit engagement and any relevant discussions with the firm that support these conclusions.

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
332.	Q4	<p>We clearly support emphasizing the need for a professional accountant to apply the framework in any circumstances.</p> <p>We are in general agreement with the suppression of the notion of “clearly insignificant threats” because it was set at such a level that in determining and documenting what threats needed to be safeguarded against, a lot of time is spent paying attention to insignificant threats rather than those which actually impair, or appear to impair, independence.</p> <p>But we believe it should be explained more clearly that the professional must document the analysis of the threat and how he concludes that it is at an acceptable level. We also believe that an explanation of the way analysis has to be conducted would be very important especially concerning the approach of the perception by a third party. In fact, the definition of 'acceptable level' seems to focus entirely on external perception and security is needed especially as 'acceptable level' is a very subjective term. We recommend too that a fuller explanation be given early in the Code as to what the professional accountant is required to do or not in relation to the determination of the acceptable level and what he is required to do or not in relation to the documentation of threats that are not at an acceptable level.</p> <p>We also suggest that important definitions such as “acceptable level” and “reasonable and informed third party” should be reminded in the concerned sections so that those sections will be easier to read.</p> <p>Regarding, the key notion “reasonable and informed third party”, for translation purpose we recommend further explanation or illustration in order to permit a better understanding of the underlying concept (for example, does an individual shareholder be considered as such a reasonable and informed party?)</p>	CNCC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
333.	Q4	<p>There are two issues here: the removal of ‘clearly insignificant’ from the Code with its replacement by what is acceptable, and documentation.</p> <p><i>Removal of ‘clearly insignificant’</i> We understand that the introduction of a definition of an “acceptable level” clarifies the requirement to apply safeguards and together with the removal of clearly insignificant eliminates some of the uncertainty surrounding the notions of “clearly insignificant” and “acceptable level”. At the same time we urge the IESBA to ensure that the changes made in parts A, B and C in that respect are made consistently and do not reduce the robustness of the requirements.</p> <p><i>Documentation</i> The documentation requirement is covered in paragraph 290.29. This paragraph is not very clear and we are concerned whether it requires that auditors prepare the appropriate level of documentation given the amount of professional judgement that may be involved in assessing threats and applying appropriate safeguards.</p> <p>The auditor has to exercise professional judgment in assessing the threats and appropriate safeguards that should be in place to reduce any threat to an acceptable level in those circumstances where provision of the service is not prohibited. It is important that any requirement to document this exercise of professional judgment is clear both for the auditor and for those exercising oversight of the auditor.</p> <p>We are not clear from this paragraph 290.29 whether the auditor has to document his/her assessment of threats and safeguards even when the auditor has decided that the threat is at an acceptable level and no safeguards are necessary. It would seem that documentation is only necessary where the auditor believes that a safeguard is needed. However, it would seem more robust to us if the auditor had to document the whole assessment, not just when safeguards are applied. And if this is what is intended it should be clearer in the paragraph.</p> <p>We also note that para 290.29 has a rather defensive introduction, ‘Even though documentation is not, in itself, a determinant of whether a firm is independent...’, which could set the scene for suggesting that documentation is not important.</p>	CEBS	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
334.	Q4	<p>We agree with the proposed removal of the phrase “clearly insignificant.” However, we believe that the documentation requirement in paragraph 290.29 should be re-focused to describe the requirements. As currently written, the paragraph begins by informing the reader about the limitations of documentation, which creates a defensive tone and detracts from clearly presenting the requirements.</p> <p>We suggest deleting the introduction to the first sentence in paragraph 290.29, “Even though documentation is not, in itself, a determinant of whether the firm is independent”, and start the requirement with the phrase (our suggested additional words, which we believe would improve clarity, are underlined) “Conclusions regarding the assessment of compliance.”.</p> <p>We also suggest bringing together the two sentences in paragraph 290.29 that represent requirements (ie the revised first sentence and the current final sentence). This modification would move the middle sentence of the paragraph, which appears to be providing application material, to the end of the paragraph. The revised paragraph would read as follows:</p> <p><del>“Even though documentation is not, in itself, a determinant of whether a firm is independent, e</del> Conclusions regarding <u>the assessment of compliance</u> with independence requirements, and any relevant discussions that support those conclusions, shall be documented. <u>When threats to independence are identified that require the application of safeguards, the documentation shall also describe the nature of those threats and the safeguards applied to eliminate them or reduce them to an acceptable level.</u> Documentation of independence conclusions and related discussions prepared to meet the requirements of international standards on auditing will meet this requirement. <del>When threats to independence are identified that require the application of safeguards, the documentation shall also describe the nature of those threats and the safeguards applied to eliminate them or reduce them to an acceptable level.”</del></p>	Basel	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
335.	Q4	<p>We agree to make clear that the Code comprises a conceptual framework that applies when a circumstance is not specifically addressed in the Code. We welcome the clarification introduced in § 100.6 of the Code that reinforce the role of the conceptual framework and the emphasis given in § 100.12 to the fact that the conceptual framework applies even for situations clearly described in the Code. Nevertheless, we think that it is important to mention explicitly that a professional have to use his judgement when he is facing a situation described in the Code to chose the appropriate safeguards. It should be then important to point out that most safeguards provided in the Code are only examples of the safeguards that could be applied in the circumstances described, except if the safeguard is a requirement.</p> <p>We also welcome the definition of what an acceptable level is and the deletion of the concept of “clearly insignificant” for a threat.</p>	Mazars	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
336.	Q4	<p><b><i>Documentation and Evaluation of Threats Identified that are Below an Acceptable Level</i></b></p> <p>With the removal of the term “clearly insignificant”, the code does not appear to provide sufficient guidance as to either documentation or evaluation procedures for threats that are greater than inconsequential but not above an acceptable level. The Code appears to have a documentation gap between threats that are initially identified as above an acceptable level (documentation required) and those that are at or below an acceptable level (no documentation required).</p> <p>We agree that there must be documentation of the auditor's actions to identify, evaluate, and respond to threats to independence and objectivity. However, the Code does not require documentation of the process of identification and analysis of threats that are judged by the professional accountant to be at or below an acceptable level, rather it only requires documentation of cases where a threat is initially judged greater than acceptable, and is then reduced to an acceptable level through the application of safeguards. We are concerned that the Code does not have adequate guidance that would require the professional accountant to identify, specifically evaluate, and document all possible threats to independence, including those that are ultimately determined to be at an acceptable level.</p> <p style="text-align: right;">Cont</p>	IOSCO	See above
337.	Q4	<p>To address the documentation gap, the concept of clearly insignificant should be included and defined in the Code. Documentation of all threats identified that are above clearly insignificant should be required, including the professional accountant’s assessment and conclusion regarding why these threats are at or below an acceptable level. We do support that there should be no requirement to document threats that are clearly insignificant. We believe that documentation is an important driver of attention and behavior and requires the professional accountant to give due consideration to the identification and assessment of all threats identified that are above clearly insignificant, rather than a default conclusion that all threats are acceptable without a robust evaluation of the facts and circumstances. Further, documentation of threats identified that are above clearly insignificant but at or below an acceptable level allows the professional accountant to determine if the threats identified are at or below an acceptable level on a <i>cumulative</i> basis.</p> <p style="text-align: right;">Cont’d</p>	IOSCO	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
338.	Q4	We are not sure we fully understand all that this question is intended to be referring to, but we can offer the following comments. We agree it is desirable to refer to and reinforce the principles in the conceptual framework approach throughout the Code. See comments above regarding documentation requirements for threats that are at or below an acceptable level.	IOSCO	See above
<p><b>Question 5</b>  <b>The IESBA is of the view that the selected point-in-time effective date with the proposed transitional provisions will provide the appropriate balance between firms and member bodies having sufficient time to implement the new standards and effecting change as soon as possible.</b></p>				
339.	Q5	No comment.	IDW	See discussion of effective date in Agenda Paper 2 Feb 2009
340.	Q5	We believe the proposed effective date and transitional provisions are appropriate. We appreciate this opportunity to comment. We would be pleased to discuss in further detail our comments and any other matters with respect to the IESBA's Exposure Draft.	AICPA	See above
341.	Q5	We believe that the selected point-in-time effective date with the proposed transitional provisions is appropriate	CICPA	See above
342.	Q5	We are comfortable with this.	CIMA	See above
343.	Q5	Assuming finalisation and publication in line with expectations, we agree that this is a reasonable timetable.	ICAEW	See above
344.	Q5	Agree.	MIA	See above
345.	Q5	FAR SRS agrees	FARS	See above

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
346.	Q5	We agree with the IESBA's view that the selected point-in-time effective date with the proposed transitional provisions is appropriate.	ICPAS	See above
347.	Q5	We agree with these proposals.	ACCA	See above
348.	Q5	The AIA believes that the proposed effective date and the associated transitional arrangements are workable and appropriate.	AIA	See above
349.	Q5	We agree that the selected point-in-time effective date with the proposed transitional provisions will provide the appropriate balance between firms and member bodies having sufficient time to implement the new standards and effecting change as soon as possible.	HKICPA	See above
350.	Q5	We believe that the proposed effective date of December 15, 2010 is appropriate.	APB	See above
351.	Q5	We believe that the proposal regarding the effective date is appropriate. We do sense that the transitional provisions considered for partner rotation are not necessary since the proposed provisions allow a sufficient expanse of time for implementation of the revised standards. We do not believe there are any apparent problems preventing timely application.	BDO	See above
352.	Q5	We agree. We anticipate no problems in obtaining approval internally, however we have no control over our oversight bodies granting the necessary approvals eg IAASA.	CARB	See above
353.	Q5	We are supportive of the point-in-time effective date proposed in the exposure draft. The requirements identified as needing transitional effective dates (partner rotation, entities of public interest and provision of non-assurance services) are areas where professional accountants and the IFAC member bodies will need to review the requirements and appropriately develop policies and procedures to ensure compliance. The point in time effective dates after the December 15, 2010 effective date will allow sufficient time for those policies and procedures to be implemented.	GTI	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
354.	Q5	We agree that a point-in-time effective date, with transitional provisions, is preferable to implementation starting with fiscal years that begin after a specified date, for the reasons explained by IESBA in the Explanatory Memorandum to the Exposure Draft. We have no reason to disagree with the assessment made by IESBA that the preferred effective date of the revised Code should be approximately eighteen months after issuance.	RSM	See above
355.	Q5	We are content with the IESBA’s proposed implementation approach.	ICAS	See above
356.	Q5	We agree.	CCAB	See above
357.	Q5	We agree.	Basel	See above
358.	Q5	We agree.	FEE	See above
359.	Q5	The Committee believes the effective date and transitional provisions proposed are reasonable.	VSCPA	See above
360.	Q5	We agree that a point-in-time effective date is an appropriate way to implement the new standards and effective date. We accept that member bodies require sufficient time to undertake their due process to implement the new standards. We believe that the proposed effective date should provide sufficient time, particularly as the most significant changes, ie those flowing from the December 2006 exposure draft, have already been communicated.	KPMG	See above
361.	Q5	The Joint Accounting Bodies agree with the view of the IESBA that a selected “point-in-time” effective date with transitional provisions, as proposed, provides an appropriate balance between firms and member bodies having sufficient time to implement the new standards and effecting change as soon as possible.	ICAA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
362.	Q5	We agree with the selected point-in-time effective date. We consider that adequate time would be provided through the transitional provisions for compliance with the revised Code.	ICPAC	See above
363.	Q5	We agree with the IESBA's view that the selected point-in-time effective date with the proposed transitional provisions is appropriate.	ICPAS	See above
364.	Q5	We agree with the proposed point-in-time effective date with transitional provisions. We are also of the view that member bodies should be encouraged to adopt the changes in the Code at the earliest possible date.	IRBA	See above
365.	Q5	Though we could support the IESBA's position as an appropriate, pragmatic, response, we would note that the implementation of the clarity changes would take place at the same time as the other changes which are taking place to make the Code more robust, through Independence I and II. We would therefore have a marginal preference for an earlier adoption date for the revised, clarified, Code.	Basel	See above
366.	Q5	We support the proposal that the revised Code become effective at a point in time rather than starting with the fiscal years that begin after a specified date and believe this will make the effective date provisions of the Code simpler to apply and easier to understand. We believe, however, that the transitional period, as it relates to non-assurance services should not be extended to June 15, 2011. The period before the revised Code becomes effective in December 2010 should provide sufficient opportunity for auditors to terminate prohibited non-assurance services and their clients to find alternative solutions.	EYG	See above
367.	Q5	We support the proposal regarding the effective date, subject to the following: we believe that the requirement to complete any "prohibited" services within six months may not be realistic in all circumstances and recommend that this should require that such services should 'normally' be completed within six months but that in exceptional circumstances and subject to discussion with the client's audit committee and implementation of effective safeguards, that more tolerance be allowed (say twelve months).	PwC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
368.	Q5	<p>Generally we agree that the proposed transitional provisions are appropriate, except for fees – relative size. In order to create the necessary conditions for audit firms to properly apply this Code, we believe that transitional provisions should be introduced for fees – relative size. Specifically, as a minimum, “fresh start” treatment at the time of the effective date (currently expected to be December 15, 2010) should be introduced. That is, safeguards shall be applied when the relative size represents more than 15% for two consecutive years after the effective date.</p>	JICPA	See above
369.	Q5	<p>We agree with the proposal that the effective date be a point-in-time with transitional provisions, however, we would suggest that if 18 months after the date the Code is adopted is so close to a year-end, that the date selected be 1 January rather than 15 December. In our view, it will be easier for all parties to implement rather than a date that is so close to the end of the calendar year.</p> <p>Although the requirements in the Code that previously applied to listed entities now apply to public interest entities, we question whether a transitional period is necessary with respect to these additional requirements. The definition in the Code of public interest entities has only expanded the entities so defined to include those that are defined as such by regulation or legislation or must meet the same independence requirements that apply to the audit of listed entities. We would suggest leaving the issue as to when the additional requirements should apply up to those who are defining the entities that are subject to the additional requirements. Thus, the effective date would not include a transitional provision for public interest entities but would acknowledge that the laws or regulations may determine an effective date beyond what’s provided. This will afford jurisdictions more flexibility to determine the appropriateness of designating certain entities as being public interest entities without being bound to the prescribed effective date.</p> <p>We also suggest that member bodies be encouraged to adopt the changes in the Code at the earliest possible date.</p>	DTT	See above
370.	Q5	<p>It is suggested that the effective date should be flexible to ensure the relevant jurisdictions can apply the Code to its membership. In addition, the effective date should be effective as at the start of a particular fiscal/financial year.</p>	Mark Shum	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
371.	Q5	<p>As a preamble to this answer we would like to stress in particular that the framework and content of the French code of ethics is prepared and issued by a regulation (decree) of the Ministry of Justice. In addition, the CNCC draws the attention of the IESBA to the fact that it has no authority to issue or amend the French Code and to give any assurance about a date of implementation. Moreover, the timetable of the implementation at a European level will probably have a big influence on the French attitude.</p> <p>However, if the decision of a quick implementation was taken, the timetable would need to include time for translation, implementation and education.</p> <p>Concerning the proposed timetable, we are of the opinion that it is clearly ambitious. In addition, we believe that an effective date applicable to the whole Code would be a better solution. This would ensure that all situations dealt with and all the provisions of the Code will have to be considered at the same period and in this way the provisions of the Code will be easier to understand.</p> <p>We also believe that it would be better to state that the section 290 of the Code is applicable to any period covered by an audit report starting 18 months after its final approval rather than to apply it at a point in time. We understand that the solution of an effective date at a point in time seems to provide a simpler application meaning the Code will apply to every one at the same time. But we are of the view that, during an audit period, the priority for the professional is to be focused on the audit he has to perform than to have to deal with new ethics rules. In fact, the professionals are supposed to already apply most part of the principles of the Code and they will need time to benchmark the revisions of the Code then to implement them to each mission. Moreover if compliance to the provisions of the Code can be delayed in three key areas such as partner rotation, PIES and provision of non assurance services, we believe it can also be delayed for the rest of the Code.</p> <p>That's the reason why we propose the Code to be applied to all period covered by an audit report started after December 15, 2011. Therefore the member states will have enough time to obtain a proper translation of the Code and to enhance education for the professionals.</p>	CNCC	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
372.	Q5	<p>We agree with the comments of CNCC about this question.</p> <p>Therefore, we propose that the Code should to be applied to audits and others assurance engagements of financial statements for periods beginning on or after December 15, 2011 .This effective date would give to the member states enough time to obtain a proper translation of the Code and to enhance education for the professionals</p>	CSOEC	See above
373.	Q5	<p>We understand that the proposed “point-in-time effective date” is a static date as opposed to an effective date that applies to “engagements commencing after ... ”. If our understanding is correct, the proposed effective date could have serious implications for a professional accountant who could become in breach of a specific ethical requirement which becomes effective during the course of an engagement. As a result, the use of such a specific date might have the very serious effect of requiring an auditor to resign part way through an audit engagement. As an example, the simple use of “shall” in place of “should” could create a requirement where previously the exercise of judgment was permitted and result in a different course of required conduct for the professional accountant.</p>	CICA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
374.	Q5	<p>NIVRA agrees with the IESBA that a period of approximately 18 months between the planned issuance of the revised Code and the effective date gives member bodies and firms sufficient time to implement the new standards. However, we would suggest to relate the effective date to the period regarding the engagement and to the beginning of a new engagement also. Thus only one regime of provisions will be applicable on the same engagement instead of two regimes, which might be the case under the IESBA’s proposal. We believe in this way implementation for professional accountants and firms, especially in respect of the revised, in several ways tightened up, independence provisions on audit and review engagements, is easier. Since fiscal years often start on January 1<sup>st</sup>, we would also suggest to make a connection with that date rather than December 15th. Therefore we propose that the revised Code becomes effective on January 1<sup>st</sup>, 2011, and shall be applied to engagements for periods beginning on or after January 1, 2011, and to engagements beginning on or after January 1<sup>st</sup>, 2011.</p> <p>We disagree with the transitional provision with respect to Partner Rotation. Since it will take approximately 18 months before the Code becomes effective, there is sufficient time for all individuals concerned to anticipate the partner rotation requirements. We believe it is not in the public interest to permit the “additional individuals” an additional year before the partner rotation requirements are effective for them.</p> <p>We do not give our views on the transitional provision regarding Entities of Public Interest, since we are unlikely to implement it in view of existing national regulation.</p> <p>We agree with the transitional provision of Non-Assurance Services. If the IESBA follows our suggestion with respect to the effective date, then a firm shall not contract for any such services after January 1, 2011 and any ongoing services that were contracted before January 1, 2011 shall be completed by July 1, 2011.</p>	NIVRA	See above

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
375.	Q5	<p>We agree that a selected point-in-time effective date is more appropriate. Nevertheless, we would welcome illustrative examples, especially for partner rotation: does it apply to the date of the signature of the report (for instance 2011 for the financial statements 2010) or does it apply to the date of the financial statements (2011 financial statements, even if the date of the report is 2012)?</p> <p>Moreover, we think that a 18 month transition period could a very short period of time due to the need of translation and transposition in laws or regulation of each countries.</p>	Mazars	See above
376.	Q5	<p>SAICA’s Ethics Committee has some concerns that the proposed differing implementation dates may create some confusion, and some implementation dates may inadvertently be missed. A single implementation date, giving enough time for communication and education concerning the changes would be the ideal.</p>	SAICA	See above
377.	Q5	<p>We do not object to the IESBA setting whatever effective dates it believes are needed to allow for adequate preparation and implementation. However, we observe that there are several proposed effective dates for different sections and provisions in the proposed Code. To an external reader, this appears rather complex and it was not clear how an audit firm would actually implement different portions of the new Code at interim points in a client’s reporting year, and what the firm would be required to say or disclose as a result. We request that the Board clarify the effective dates and transitional periods, including the procedures involved and the supporting rationale, in the final standard.</p>	IOSCO	See above
<b>Section III: SME, Developing Nations and Translation</b>				
378.	Small Entities	<p>The AIA does not believe that the Code requires any further provision for the audit of small entities.</p>	AIA	Supportive comment
379.	Small Entities	<p>We believe the considerations regarding the audits of small entities have been dealt with appropriately</p>	DTT	Supportive comment

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
380.	Small Entities	No particular provisions have been found in the Code regarding the audits of small entities. We understand that the approach is that all entities are to be treated the same.	ICPAC	Supportive comment
381.	Small Entities	We do not believe there are any significant issues applicable to audits of small entities. Notably, this group would not include PIE's, where substantial changes have been proposed.	BDO	Supportive comment
382.	Small Entities	Considerations regarding the audits of small entities do not appear to have been dealt with separately in the Code.	IRBA	Supportive comment
383.	Small Entities	We support the work undertaken to use more-direct language. However, directness should not result in more rules for the audit of small entities. See our observations on this critical point in paragraph 1 « PREAMBLE »and in our response in april 2007 regarding to section 290 and 291.	CSOEC	See discussion above on principles/rules
384.	Small Entities	The consultation paper requests comments on whether issues relating to the audit of small entities and application of the Code in developing nations have been taken into account appropriately. We believe that interests are best served by following the principles-based approach, which allows the right solution in the varying circumstances often applicable to small audits and in developing nations. Guidance on application can be developed outside the Code, rather than adding to inflexible and often inappropriate absolute rules.	CARB	See discussion above on principles/rules
385.	Small Entities	We have no comments.	IDW	No comment
386.	Developing Nations	Given the lack of resources that may be present in these areas, additional consideration should be given the limited audit professionals with necessary experience available to comply with the rotational requirements. Given the environment in which many entities operate in developing nations, where the membership consists of primarily small firms and smaller clients, implementation of the new rules would be extremely challenging and additional time for transitioning would be appropriate.	BDO	

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
387.	Developing Nations	We have not identified any foreseeable difficulties in applying the provisions in a developing nation environment.	DTT	Supportive comment
388.	Developing Nations	We have no comment	IDW	No comment
389.	Developing Nations	No comments.	ICPAC	No comment
390.	Translations	We have not identified any potential translation issues.	DTT	Supportive comment
391.	Translations	No potential translation issues identified.	ICPAC	Supportive comment
392.	Translations	We have no comment	IDW	No comment
<b>Section IV: Other Matters</b>				
393.	Others Matters	It is usual in any such document to have the "Definitions" section at the start, i.e. it is read first and the terms defined can therefore be easily identified and interpreted within the text. Not having studied the "Contents" page closely, I only realised the Definitions section existed when I was well into the document.	AAT	Minority view – no change

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
394.	Requirements	<p>The draft Code now refers to Parts B and C as containing ‘specific requirements’ (paragraph 100.11), or ‘specific guidance’ (paragraphs 280.2, 290.157 and 291.141), or it simply says that they ‘describe specific circumstances’. There must be more consistency in this respect in order to provide clarity, and in view of the fact that the Code is principles-based, use of the term ‘specific requirement’ must be avoided. For the purpose of this consultation response, we shall refer to Parts B and C as containing ‘guidance’.</p> <p>The extant position is that the conceptual framework is to assist a professional accountant to identify, evaluate and respond to threats to compliance with the fundamental principles (paragraph 100.6). It is our view that there are three fundamental messages that must be clearly conveyed throughout the Code:</p> <ul style="list-style-type: none"> <li>• A professional accountant shall not wilfully breach any of the fundamental principles.</li> <li>• A professional accountant shall apply the conceptual framework when a situation is identified that could lead to an incentive or a compulsion to breach one or more of the fundamental principles.</li> <li>• A professional accountant may obtain guidance from Parts B and C of the Code, in the form of examples that will be relevant, to some extent, when a specific situation encountered by the professional accountant is similar to a situation set out in the guidance.</li> </ul> <p>By using the word ‘shall’ in an identical way, whether it is in connection with the fundamental principles, the conceptual framework or the guidance, the proposed Code elevates the guidance to the same level as the principles and the conceptual framework. This is fundamentally wrong.</p>	ACCA	Minority view – no change

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
395.	Requirements	<p>The effect of many of the proposed changes simply do not meet the objective of providing clarity. In some cases, they provide less clarity whilst, at the same time changing the status of guidance to requirements, or general principles to specific requirements. It appears that the full impact of the so called ‘clarity’ changes has not been appreciated. When a general principle becomes a specific requirement, there must be precision in language, so that there can be certainty regarding the requirement, and that requirement must be achievable. For example, paragraph 100.8 now expresses a specific requirement as follows:</p> <p style="padding-left: 40px;"><i>‘A professional accountant shall evaluate any threats to compliance with the fundamental principles when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.’</i></p> <p>This requirement is unreasonably onerous as it refers to <b>any</b> threats that <b>may</b> compromise compliance. In our view a comprehensive review of the drafting is necessary to eliminate similar problems.</p>	ACCA	
396.	Examples vs Requirements	<p><b>Relationship between principles and examples</b></p> <p>We do not support the way in which this relationship is now described in paragraphs 100.12, 200.1 and 300.6. It appears to signify a move away from considering the Code to be principles based, with some specific requirements deeming what appropriate actions are in some circumstances, to a rules-based code, with some principles to sweep up anything not thought about. This is not what the Code is meant to be about, unless the IESBA has had an unadvertised change in stance. If the concern is that ‘examples’ implies a more voluntary status than intended, this can be addressed while still clarifying that:</p> <ul style="list-style-type: none"> <li>• the fundamental principles are paramount; and</li> <li>• the detailed requirements explain how these principles must (or shall) be applied in a variety of circumstances typically faced by professional accountants.</li> </ul>	CCAB	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
397.	Self-review threat	<p>We support the revised descriptions of the five threats to compliance with the fundamental principles.</p> <p>We would point out, however, that there is a potential inconsistency between the description of the self-review threat and the use of a ‘separate team’ or individual as a safeguard against this threat. The logic would appear to be that the threat increases as the distance between, for example, the person responsible for the non-audit work and the audit engagement team reduces. We believe the Code might usefully clarify that the effectiveness and value of the safeguard increases as the individual or team responsible for the service is distanced from the audit team (e.g. perhaps in another practice area or even geographically).</p>	PwC	
398.	Specific responsibility	<p><b>The assignment of specific responsibilities.</b> The APB believes that in order to achieve consistent application of ethical standards, it is essential that it is clear to whom each requirement applies. Rather than making this specific, the IFAC Code states that responsibility may differ depending on the size, structure and organisation of a firm. Particular differences between the IFAC Code and the ESs relate to:</p> <ul style="list-style-type: none"> <li>• the central role of the audit engagement partner in the ESs; and</li> <li>• the APB’s belief that the appointment of an ‘ethics partner’ is an important part of the approach of the ESs to changing mindsets within firms and raising standards.</li> </ul>	APB	
399.	Safeguards	<p>In order to emphasize that examples of safeguards are not mandatory, it would be better to mention, for all examples that they “include but are not restricted to”. Moreover, we think that it should be clearer that other safeguards apart from those listed in the Code are appropriate to deal with the situations described in the Code. We think that the wording of § 100.12 should be revised.</p>	Mazars	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
400.	Effectiveness of Safeguards	<p><b>Status and positioning of firm wide safeguards.</b> APB is of the view that the IFAC Code could be significantly enhanced by adding a definition of ‘safeguards’ to the definitions and using that definition to ensure that the term is appropriately and consistently applied throughout the IFAC Code. At present the term ‘safeguard’ is used to cover a number of potential circumstances and actions including:</p> <ul style="list-style-type: none"> <li>(a) Direct actions that can be taken to mitigate a threat, e.g. removing an individual from the audit team (290.126).</li> <li>(b) Obtaining information to help the professional accountant determine whether there is a threat, e.g. obtaining knowledge and understanding of the client, its owners, managers and business activities (210.3).</li> <li>(c) Specific aspects within the client’s systems and procedures, e.g. a corporate governance structure that provides appropriate oversight and communications regarding the firm’s services (200.15).</li> <li>(d) Aspects of the control environment within a professional services firm, e.g. leadership of the firm that stresses the importance of compliance with the fundamental principles (200.12).</li> <li>(e) Disclosing the existence of a threat, e.g. disclosing to intended users the work to be performed and the basis of remuneration (240.4).</li> <li>(f) Safeguards created by the profession, legislation or regulation as set out in 100.15.</li> </ul> <p>The APB is of the view that only category (a) should be considered as safeguards. The other categories are variously factors that contribute to evaluating the existence and magnitude of a threat (categories (b) and (c)), features of a profession and a firm’s control environment which create an environment where a threats and safeguards approach can be allowed (categories (d) and (f)), or important communications which do not of themselves mitigate a threat (category (e)).It is critical to the effective application of the IFAC Code that this matter be clarified. Otherwise there is a considerable risk that some accountants will delude themselves that they have applied a safeguard when this is not actually the case.</p> <p>Changes in this regard should emphasise the importance of developing an appropriate control environment within audit firms. The ESs set out a number of policies and procedures which audit firms are required to implement. This emphasises the importance of the leadership of the firm establishing a culture of integrity through setting an appropriate ‘tone at the top’ of an audit firm.</p>	APB	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
401.	Use of “trivial and inconsequen tial”	<p>In the Explanatory Memorandum’s section on “Clearly Insignificant” (page viii), the reason for changing the wording “clearly insignificant” in the Code is explained. The section states that “clearly insignificant” is defined in the Code as “a matter that is deemed to be both trivial and inconsequential.” The Exposure Draft eliminates the words “clearly insignificant” and substitutes “trivial <b>and</b> inconsequential” in some Sections (as shown in Section 260.2 on gifts and hospitality; Section 291.28 regarding multiple party threats to independence; and Section 300.12 regarding gifts to the professional accountant or preferential treatment), but in others (see Section 200.7) uses the phrase “trivial <b>or</b> inconsequential.” The phrase “trivial <b>or</b> inconsequential” is the better one to use because satisfaction of either condition (rather than both) would require that the professional accountant decline the gift or preferential treatment.</p> <p>NASBA further recommends that there be reconsideration of the use of the word “inconsequential,” since finding something to be “inconsequential” implies judging what may occur in the future. NASBA suggests that only the word “trivial” be used in the sections that address gifts and preferential treatment, as it is in the public interest to limit gifts and preferential treatment to those things that are only trivial.</p>	NASBA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
402.	Consider, evaluate, determine	<p><b><i>“Consider” “evaluate” and “determine”</i></b></p> <p>In principle, we agree with adopting standard meanings and uses for words that signify specific requirements or different actions, but we are also aware that the distinctions may well be lost in translation to other languages. To improve the clarity of the Code and facilitate translation these terms should be used consistently and to the exclusion of other words with similar meaning. Furthermore, the Code should acknowledge more explicitly that a requirement to “consider” generally leads to a requirement to “evaluate”, which in turn leads to a requirement to “determine”. Used on their own, without this, or with alternative expressions, these terms arguably do not lend the Code the desired level of clarity.</p> <p>Furthermore, as a matter of principle, the Code should not impose an obligation to determine a matter without also providing guidance as to the matters to be taken into account. Paragraph 290.33 states for example that “The firm shall determine whether to communicate the matter to those charged with governance”, but the Code offers no guidance as to the circumstances in which it would be appropriate not to report (or to report). The current wording of the Code states that the firm should <u>consider</u> whether to report – which seems more appropriate wording where no guidance is offered (but that use of “consider” does run counter to IESBA’s proposed drafting conventions).</p> <p>Examples of inconsistency:</p> <ul style="list-style-type: none"> <li>• <i>“evaluate” only</i> - paragraph 290.7 requires the accountant to evaluate and implies, but does not state expressly (in 7.c), a requirement to determine what, if any, safeguards are necessary to eliminate the threats or reduce them to an acceptable level;</li> <li>• <i>“evaluate” and “determine”</i> - by contrast, paragraph 290.9 includes express requirements to both evaluate threats and determine whether safeguards are available; similarly paragraph 290.100.</li> <li>• <i>“determine” only</i> - paragraphs 290.22 and 290.24 expressly require determinations, but nowhere in paragraphs 290.13 to 290.24 is there an express requirement to consider or to evaluate.</li> </ul>	PwC	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
403.	Consider, evaluate, determine	<p>NIVRA agrees with the proposal to change “consider” in several paragraphs into either “evaluate” or “determine”, to make the Code more robust..</p> <p>In the majority of the paragraphs considering is an obligation, because of the use of the modal verb “shall” with respect to “consider”. However, such is not the case in paragraphs 100.22 and 320.6 (second time “consider” is used), because of the use of the modal verb “may”. We doubt if this is right. We believe that if a significant conflict cannot be resolved (which is the basic assumption of paragraph 100.22), a professional accountant may not but really should (and therefore, because of the Drafting Conventions, shall) consider obtaining professional advice from the relevant professional body or from legal advisors (100.22, first sentence), since it is important significant conflicts are solved in a due process. We are also of the opinion that a professional accountant in business may not but really should (and, because of the Drafting Conventions, therefore shall) consider whether to resign, in a situation in which it is not possible to reduce a threat to an acceptable level and significant or persistent misleading information is issued (320.6, last sentence). This makes sense anyway, since the same paragraph requires the professional accountant not to be or remain associated with misleading information. Resigning might be the only safeguard to accomplish that requirement. In addition, we doubt if it is possible to “consider” whether to resign. If the professional accountant is required to think about whether to resign, he is supposed to make a decision. The word “determine” might therefore more appropriate than “consider”.</p> <p>Another argument to use the word “shall” instead of “may” in both paragraphs is that it would be consistent with the Code.</p>	NIVRA	
404.	Consider, evaluate, determine	<p>The Explanatory Memorandum explains that the word “considered” has been replaced because it “could be seen by some as being less robust than intended” (page x). Consequently, throughout the Exposure Draft the word “considered” has been replaced with “deemed” (as shown in Sections 100.10, 110.3 and 290.13). In standard dictionaries, “deemed” is a synonym” of “considered”; However, “deemed” is also a synonym of “judged.” The choice of the word “deemed” may be misleading as it connotes that judgment has been made by a third party rather than by the professional accountant.</p>	NASBA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
405.	Threats	<p>NIVRA welcomes the proposals with respect to “threats” as presented in the Explanatory Memorandum.</p> <p>The Introduction of Section 200 gives several examples of the five different categories of threats. Although we realize these are just examples, we would like to address that some of these examples (see for instance the last bullet of 200.8) are not always a threat per se. In our opinion it depends on the circumstances and the culture too. We therefore suggest that IESBA includes a paragraph explaining how we should read these examples.</p>	NIVRA	
406.	Reasonable Observer Test	<p>We have noted that the proposed new wording in paragraph 100.7 would require professional accountants to consider “whether a reasonable and informed third party (‘reasonable observer’), weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards, such that compliance with the fundamental principles is not compromised”. The proposed requirement is repeated in paragraph 200.10 and the new definition “acceptable level”, and is incorporated by reference in paragraph 300.6. Paragraph 100.7 appears to replace and extend existing paragraph 100.15 which applies the reasonable observer test in a more limited way to the professional accountant’s analysis of safeguards.</p> <p>This extension of the application of the reasonable observer test was not explained in the Explanatory Memorandum and we believe that there are issues worthy of consideration and discussion before it is implemented. These issues are, in our view, conceptually pertinent to the application of the reasonable observer test in its present application in paragraph 100.15. We raise the issues at this time, however, because the implications of applying the test as the ultimate step in determining overall compliance with the fundamental principles are more profound. We also believe they detract from the clarity objective.</p> <p style="text-align: right;">Cont’d</p>	CICA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
407.	Reasonable Observer Test	<p>When a fundamental principle is compromised, or about to be compromised, the reasonable observer test may not produce a meaningful result. Conceptually, for example, if a professional accountant intends to commit an act that he or she knows would be in breach of the fundamental principle of integrity, the notional advice of the reasonable observer, if in fact sought, would be ignored. Similarly, the incompetent accountant would not have the competence to consider properly what the third party observer would think. Examples could be provided for each of the fundamental principles.</p> <p>On the other hand, where the professional accountant acts, or proposes to act, with integrity, the accountant may not easily be able to ensure that all of the facts and circumstances, including safeguards in place, will satisfy the reasonable observer. This is a heavy responsibility with perhaps little benefit. Simply acting with integrity should be enough.</p> <p>Taking the examples a step further, where a professional accountant considers the reasonable observer test as required, and concludes that the reasonable observer would approve, there is no tangible evidence of the reasonable observer's notional conclusion, and there is no guarantee that another person responsible for reviewing the accountant's conduct would reach the same reasonable observer's conclusion. In other words, the reasonable observer test is unverifiable, subject to second-guessing and, therefore, uncertain in its application.</p> <p style="text-align: right;">Cont'd</p>	CICA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
408.	Reasonable Observer Test	<p>The reasonable observer test is a court-created standard for determining how the public would evaluate or respond to particular facts and circumstances. As a concept in the law, the professional accountant may not be trained to apply it properly and, accordingly, we believe that significantly more guidance may be required in the Code to bring an acceptable degree of certainty to the test results. Absent a predictable degree of certainty in the application of the reasonable observer test, we are concerned that the requirement may not be enforceable.</p> <p>We would also bring to the Board’s attention what is most probably an unintended result of applying the reasonable observer test to the evaluation of compliance with the fundamental principles. The definition of <i>independence</i> for assurance engagements requires, in effect, the professional accountant to act with integrity, and exercise objectivity and professional skepticism <b>and</b> to ensure that the reasonable observer would come to that conclusion. An implication of adding the reasonable observer test to compliance with the fundamental principles of <i>objectivity</i>, <i>integrity</i> and <i>professional competence and due care</i> would be the creation of a standard equivalent to <i>independence</i> for all engagements. Cont’d</p>	CICA	
409.	Reasonable Observer Test	<p>The Code contains other, more narrow applications of the reasonable observer test to certain fact-based evaluations (such as paragraph 260.2). Generally, we do not believe the issues that we have raised above have the same serious implications when applying the test in the more narrow contexts.</p> <p>We would respectfully request that consideration be given to simply providing in the Code specific requirements that a professional accountant must follow to ensure compliance with the fundamental principles without having to address the reasonable observer test, other than with respect to independence. If the specific requirements are right and are followed, the reasonable observer would conclude that the fundamental principles have not been compromised. The reasonable observer test will, of course, continue to be applied by the courts and others who have the responsibility to evaluate professional accountants’ conduct.</p>	CICA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
410.	Enforceability	<p>As noted above, we believe that the use of the word “should” improves the clarity and rigour of the Code. It also improves to a degree the enforceability of the Code, an area that has been a concern to the Canadian profession in the past. As our profession considers the adoption in Canada of the precise style and wording of the IFAC Code, we must be satisfied that the Canadian Courts, which are the ultimate arbiters in discipline matters, will agree that the requirements as stated are enforceable. The boundary between conduct which is acceptable and unacceptable must be clear and unambiguous. We would bring to the Board’s attention three areas that we have identified where the Code may be vulnerable in this regard.</p> <p>The first relates to the use of the reasonable observer test both as the ultimate requirement for compliance with a fundamental principle, as discussed above, and as a requirement in evaluating the adequacy of safeguards. We believe such a broad application of the reasonable observer test results in uncertainty in complying with the requirements of the Code which, in turn, diminishes its enforceability.</p> <p>The second relates to the structure of the Code, where the more rigorous “shall” has been inserted into what were essentially principles without removing the other principle-like language. Currently, the Code contains guidance and a discussion of the rationale for the requirements as a preamble to the requirements themselves. In Canada, a successful challenge to the accuracy of the guidance or rationale in particular circumstances would likely result in the Courts finding the related requirement to be invalid.</p> <p>The third relates to the “departure from requirements” proposal discussed in response to Question 3. above. We believe that the proposal, though well intended, is not rigorous enough and may result in inappropriate non-compliance with requirements of the Code that the Canadian Courts may have little choice but to accept.</p>	CICA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
411.	Senior Management / Individual	<p>200.12.....  <i>Designating a member of <u>senior management</u> to be responsible for overseeing the adequate functioning of the firm’s quality control system.</i>            .....            220.4 ..... (e) <i>Regular review of the application of safeguards by a <u>senior individual</u> not involved with relevant client engagements.</i></p> <p><b><i>Long Association of <u>Senior Personnel</u> (Including Partner Rotation) with an Audit Client</i></b></p> <p><b><i>Serving as an <u>Officer</u> or Director on the Board of Assurance Clients</i></b></p> <p>290.150 <i>Familiarity and self-interest threats are created by using the same <u>senior personnel</u> on an audit engagement over a long period of time. The significance of the threats will depend on factors such as:.....</i></p> <p>.....• <i>Rotating the <u>senior personnel</u> off the audit team;.....</i>            • <i>Having a professional accountant who was not a member of the audit team review the work of the <u>senior personnel</u>; or</i>            .....</p> <p>290.184 .....<i>If the service is performed by a member of the audit team, using a partner or <u>senior staff member</u> with appropriate expertise who is not a member of the audit team to review the tax calculations;</i>            .....            and so on.</p> <p>The underlined “senior management”, “senior individual”, “senior personnel” and “officer” and “senior staff member” are ambiguous. In different circumstances the extent of these words or phrases are different. We suggest the difference of them should be specially clarified in the Code</p> <p>In the Code, many similar terms such as the underlined “senior management”, “senior individual”, “senior personnel” and “officer” and “senior staff member” are used in different paragraphs, we wonder whether these different terms are used intentionally, and suggest that they should be clarified.</p>	CICPA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
412.	Review by a professional accountant	<p>“Professional accountant” is defined in Code (page 267) as: “An individual who is a member of an IFAC member body.” Such definition is appropriate to identify those persons that are subject to the provisions of the Code. However, there are a number of paragraphs in the Code that refer to a third party “professional accountant,” including:</p> <p>¶Section 200.13 speaks to addressing specific safeguards in the work environment. The second bullet in the section on page 151 provides for: “Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another <i>professional accountant</i>.”</p> <p>¶Section 290.221 (the last bullet in the paragraph) states: “Consulting a third party, such as a professional regulatory body or another <i>professional accountant</i>, on key audit judgments.”</p> <p>¶Section 291.151 (the last bullet on page 240 in the paragraph) states: “Consulting a third party, such as a professional regulatory body or another <i>professional accountant</i>, on key assurance judgments.”</p> <p>Section 291.159(paragraph (b) on page 242) states, “Having a <i>professional accountant</i> review the work performed.”</p> <p>The Code now provides that a “professional accountant,” as defined by the Code, could only look to employ the services of an accountant as a third party if the third party accountant met the definition of a “professional accountant,” a member of an IFAC member body.</p> <p style="text-align: right;">Contd</p>	NASBA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
413.	Review by a professional accountant	<p>Licensing authorities in the United States of America (and possibly other jurisdictions) do not require licensees to be members of any professional association. The American Institute of Certified Public Accountants (AICPA), which is an IFAC member, could not limit one of its members to only use the services of another member of the AICPA. Such provision would likely be considered to be in restraint of trade under U.S. law.</p> <p>The proposed Drafting Convention Changes do not include any modifications to the existing Code that address the issue of restraint of trade when choosing a third party accounting firm.</p> <p>Notwithstanding, NASBA recommends that changes be made to the above sections to state that the third party accounting firm does not have to meet the Code’s definition of “professionat accountant.”</p>	NASBA	
414.	Create/ may create	<p>We note that, at the bottom of page vii of the explanatory memorandum, the IESBA explains that the Board has taken the view that a particular relationship or circumstance creates a threat, and accordingly has changed the word “may” to “does” in various instances. In our opinion, there are several instances where, contrary to the IESBA view, threats will not <i>always</i> necessarily be created. We have identified the following instances: 200.4 – 200.8, 240.5 and suggest that the relevant sentences of the Code should be amended to read: “... create or may create ...” to reflect this.</p>	IDW	
415.	Shall not knowingly	<p>There are several cases where the Board has replaced the phrase “should not” with the phrase “shall not knowingly” (see for example paragraphs 110.2 and 200.2). We believe that adding the word “knowingly” weakens the Code and may undermine an accountant’s professional responsibility. (see paragraphs 110.2 and 200.2) We believe the IESBA should review the Code and delete the word “knowingly” in the phrases “shall not knowingly”.</p>	Basel	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
416.	Use of bullets	<p>290.124 – is an example of numbering style which we believe could be improved to help the reader (along with paragraph 290.160). 290.124 consists of about four separate paragraphs – one with three bullet points, one with sub-paragraphs (a) and (b). Bullet points are used extensively throughout the Code. Generally, bullet points introduce examples (usually of services and safeguards), but they are also used for</p> <ul style="list-style-type: none"> <li>• “factors” (240.3; 290.113; 290.115; each of 290.129 to 290.132; 290.136; 290.145; 290.150; 290.153; 290.176; 290.188 and many more);</li> <li>• things that accountants shall not do (250.2; 290.142; 290.216);</li> <li>• things accountants shall do (291.6)</li> <li>• definitions (290.3 and 290.25);</li> <li>• specific circumstances (290.31; 291.31);</li> <li>• individuals (290.115; 291.25; 291.110; 291.124);</li> <li>• requirements (290.173);</li> <li>• matters to be discussed (290.223);</li> <li>• things accountant must be satisfied of (291.32)</li> </ul> <p>We recommend that the Board re-considers the use of bullets to see whether changes might be made to help the reader (e.g. more consistent use of bullets and alpha-numeric lists).</p>	PwC	
417.	Use of term professional accountant	<p>It would appear that there is not a consistent use of the term “professional accountant” throughout the Code, and in some places only the term “accountant” is used. As “professional accountant” is the defined term, this term should be used consistently throughout the document.</p>	SAICA	
418.	Use of term professional accountant	<p>I am troubled by the term "professional accountant". I realise that some term has to be used and I wish it could simply be "accountant". However, as yet, the word "accountant" is not protected (like "solicitor", for example) and anyone can call themselves an "accountant". Because of my qualification, I can call myself a "chartered accountant", and also as a member of the AAT I can call myself an "accounting technician", but all this is confusing to the general public, to say the least. What does "professional accountant" mean? What is a "non-professional accountant"? It is easy to be negative but what is the solution? I suggest there is none until we all (embracing IFAC) push for measures for the term "accountant" to be protected and I would argue in the strongest possible terms that "accounting technician" should be included within that definition.</p>	AAT	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
419.	Inadvertent violations	<p><i>Exception for inadvertent violations</i></p> <p>The Code has provided an exception for “inadvertent” violations of the requirements, stating that such violations are not deemed, or shall not be deemed, to compromise independence provided certain conditions are met and adequate safeguards are applied. We believe that writing an exception for inadvertent violations which implies that all such violations can be corrected through application of “any necessary safeguards”, may encourage unscrupulous behavior and potential abuse of compliance with the Code and should be removed.</p> <p>Paragraph 290.117 (a) states, in part “ [T]he firm has established policies and procedures that require prompt notification to the firm of any breaches from the purchase...of a financial interest in an audit client.” Given that a “purchase” of a financial interest is a conscious action, it does not seem appropriate to characterize this action as “inadvertent”, especially given a firm should have adequate policies and procedures in place to avoid this type of situation. The example highlights the potential for abuse in deeming any violation as “inadvertent” and simply applying remediation procedures subsequent to the violation.</p> <p>A broad exception for inadvertent violations could detract from motivating Firms to establish robust preventative controls to properly identify threats to independence prior to providing prohibited services. If an exception for inadvertent violations is retained in the Code we urge the Board to include a sufficiently narrow and prescriptive definition of the term “inadvertent” as well as include a materiality threshold for evaluating when an inadvertent violation could and could not be deemed to compromise independence.</p>	IOSCO	
420.	ISQC	<p>In summary, although we agree that there may be circumstances that require departure from the Code, we do not believe the various exceptions currently included in the Code are appropriate. To address this, we recommend the Code include a provision that would require professional accountants to follow the procedures detailed in proposed International Standard on Quality Control when there is a violation.</p>	IOSCO	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
421.	Inconsistent Use of Shall	<p>We agree that the use of the word "shall" to communicate a requirement is clearer and more direct than the variety of ways that the Code previously covered such matters. However, we note that the Board has not applied the new use of "shall" consistently where requirements exist.</p> <p>In order for the use of "shall" to clearly denote requirements, we believe it must be applied consistently. We believe it weakens the clarity of the Code to continue to use various other terms and phrases to also indicate requirements. As one example we cite paragraphs 100.6 and 290.7, in which phrases are used such as "...this Code provides a conceptual framework that <i>requires</i> a professional accountant to identify, evaluate, and address threats to compliance with fundamental principles" and "A conceptual framework approach to achieving and maintaining independence involves using professional judgment to apply the framework. The framework <i>requires</i> the professional accountant to (a) Identify threats to independence; (b) Evaluate the significance of the threats identified; and (c) Apply safeguards when necessary to reduce threats to an acceptable level..."</p> <p>Nowhere in the Code do we find a clear and unequivocal requirement for the professional accountant to identify threats stated in the clarified language such as, "The professional accountant <i>shall</i> identify threats to independence."</p> <p>We would expect a suitable and rigorous Code to explicitly require the auditor to actively assess (and thus perform some procedures) whether threats exist. The wording of, amongst others, paragraph 100.7 states</p> <p style="padding-left: 40px;">...when the professional accountant identifies threats to compliance with the fundamental principles that are not at an acceptable level, the professional accountant shall determine whether appropriate safeguards are available...</p> <p>The language used in the Code seems to suggest to some of our members that the auditor may sit back without seeking any information or performing any procedures to be able to assess whether a threat exists, if the auditor has a view at the outset that no unacceptable threats are present. If this were true, we would not consider this an acceptable Code.</p>	IOSCO	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
422.	Types of Safeguards	We believe the Code does not adequately distinguish between a safeguard that specifically mitigates an identified threat and “safeguards” that are equivalent to general quality control or best practices. For example, paragraph 100.15 states that safeguards created by the profession, legislation or regulation include general, enabling safeguards (such as education, training and experience requirements), standards and regulations, and professional and regulatory monitoring and external review by a third party. Although we agree that all of these contribute to good audit practice, we think that the Code should mention more explicitly that general environmental safeguards do not mitigate specific threats in an engagement, including that the auditor, upon identifying a threat, shall apply engagement specific safeguards to mitigate such threat rather than relying on the general safeguards created by the profession, legislation or regulations.	IOSCO	
423.	Other	<p>pp. 23 ( Comment categories (b), (c) and (e ) )</p> <p>The self-review threat is subject to the availability of accountants and relevant others. In countries subject to expropriation threats, available alternate personnel may not exist. The advocacy threat may be mitigated by the availability of sufficient and competent documentary evidence, independent collaborative testimony and the review of internal accounting controls as to strengths, weaknesses, complementary controls and mitigating circumstances.</p> <p>Both the self review and advocacy threats again may be subject to the availability of alternate audit personnel given the circumstances. These aspects can be mitigated by having an independent or dispassionate accountant review the final work product if there are no good alternatives given the circumstances.</p> <p>Accountants may work in war zones, areas of disaster where only the Red Cross is present and circumstances where there are few available alternatives. i.e. countries which expropriate The intimidation threat is subject to special situations as in the above. (pp. 24)</p>	JM	
424.	Other	In any definition -if certain terms defined in this code are used they should be shown in bold letters with an asterick for clarity and uniformity. For example audit client definition includes the term related entity which is further defined in the code.	RM	
<b>Section V: Paragraph Specific Comments</b>				

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
425.	100.2	<p>ED stated: ... The framework requires the professional accountant to:</p> <ul style="list-style-type: none"> <li>(a) Identify threats ...;</li> <li>(b) Evaluate the significance of the threats ...; and</li> <li>(c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level.* ....</li> </ul> <p>Suggested amendment: ... Professional accountants <b>shall use</b> professional judgment in applying this conceptual framework by:</p> <ul style="list-style-type: none"> <li>(a) Identifying threats ...;</li> <li>(b) Evaluating the significance of the threats ...; and</li> <li>(c) Applying safeguards, ....</li> </ul>	APB	
426.	100.2(b)	<p>There will not necessarily be a threat present, so we suggest changing this paragraph so that it reads: <i>'Evaluate the significance of <del>the</del> any threats identified;'</i></p>	CIMA	
427.	100.2(c)	<p>We suggest that consideration be given to the use of alternate wording below which would avoid the use of a double negative.</p> <p>“Safeguards are necessary when the professional accountant determines that the threats are <del>not</del> at a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is <del>not</del> compromised.”</p> <p>We also suggest that consideration be given to whether the modifier “specific” should be changed to “relevant”. We believe that a third party is more likely to be concerned with relevant information than detailed specific information, although we acknowledge that a “relevant” information test may set a higher bar than a “specific” information test.</p> <p><i>We note that these suggestions would likely have an impact throughout the document.</i></p>	CICA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
428.	100.2(c)	The statement that seeks to identify when safeguards are necessary in Paragraph 100.2(c) contains a double negative which does not aid the clarity of the sentence. Arguably, having made a reference to the definition of acceptable level in the preceding sentence, this further statement is not required.	ICAA/ CPA Aus/ NIA	
429.	100.2(c)	The second sentence is extremely long and contains a double negative. Written as it is, its meaning is not very clear.	CIMA	
430.	100.3	The term “they” in the second sentence should be clarified. We presume that Parts B and C are meant.	FEE	
431.	100.3	The term “they “ in the second sentence should be clarified. We presume that Parts B and C are meant.	IDW	
432.	100.3	We noted that this paragraph uses the phrase “activity or relationship” in fifth line. In other places (especially in independence section) the reference seems to be to “circumstance or relationship”. It was unclear whether the use of the differing phrase was deliberate.	CICA	
433.	100.4	<p>We question the need for the first sentence, but even if left in, the second sentence should be deleted in view of 100.11.</p> <p>Suggested Amendment: The use of the word “shall” in this Code imposes a requirement on the professional accountant or <b>firm</b>* to comply with the specific provision in which “shall” has been used. <del>Compliance is required unless prohibited by law or regulation or an exception is permitted by this Code.</del></p>	DTT	

\* See Definitions.

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
434.	100.5	For example, paragraph 100.5 includes the phrase “A professional accountant is required to comply with” rather than “A professional accountant shall comply with”. We suggest the IESBA review the Code and refer to all requirements by using the term “shall.”	Basel	
435.	100.5	However, from an English language point of view the use of ‘shall’ in the description of the fundamental principles in Section 100.5 sounds slightly awkward. In certain situations compliance with a principle might constitute a breach of the law and so the law would override compliance with the principle. An example would be where money laundering is suspected. The accountant might have to breach ‘integrity’ by not being straightforward or honest with the client in order to avoid committing the legal offence of tipping off. For this reason ‘should’ seems a more appropriate way to describe the fundamental principles. However, we reiterate that we are generally comfortable with the use of ‘shall’ in the code	CIMA	
436.	100.5	The instance where we would question the use of the word “shall” is in paragraph 100.5 where we believe that the language used in the introductory sentence “A professional accountant <b>is required to comply</b> (emphasis added) with the following fundamental principles” signals that the principles are “requirements”. We believe that the principles themselves should be stated in such a way that identifies them as “principles” and not “rules”. Therefore, we would suggest that the replacement of “should” with “shall” is neither necessary nor appropriate within the statements of principle.	CICA	
437.	100.6	The last sentence of 100.6 is not easy to understand and would benefit from some re-drafting.	PwC	
438.	100.6	100.6 (and 290.8 and 291.7) – This now states that “The conceptual framework...can deter a professional accountant from concluding that a situation is permitted if it is not specifically prohibited.” We have no concern with the sentiment expressed but the wording appears to be rather high handed, implying that professional accountants would be very likely to take a ‘ok unless banned’ approach. Perhaps the wording could be refined.	ICAEW	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
439.	100.6	<p>The last sentence (and paragraphs 290.8 and 291.7) now states that “The conceptual framework ... can deter a professional accountant from concluding that a situation is permitted if it is not specifically prohibited.” The tone of this represents an increase in stringency, for example when compared to the last sentence of paragraph 290.9 in the treatment of situations not explicitly addressed in the Code. We suggest the wording be aligned to that of paragraph 290.9.</p> <p>Also, the last sentence starts with the word “it”. We are unsure whether the approach or the conceptual framework are meant, and suggest this be clarified.</p>	FEE	
440.	100.6	<p>We suggest that the second last line which includes the language “can deter a professional accountant from concluding that a situation is permitted if it is not specifically prohibited” be changed to stronger language. Consider using “will deter a professional accountant...”.</p>	CICA	
441.	100.6	<p>The last sentence represents an increase in stringency, for example, when compared to the last sentence of paragraph 290.9 in the treatment of situations not explicitly addressed in the Code. We suggest the wording be aligned to that of paragraph 290.9</p>	IDW	
442.	100.6	<p>The last sentence starts with the word “it”. We are unsure whether the approach or the conceptual framework are meant, and suggest this be clarified.</p>	IDW	
443.	100.6	<p>In the 2<sup>nd</sup> sentence it is not clear why ‘mitigating’ was deleted. The word ‘action’ alone seems less clear than ‘safeguard’ or ‘mitigating action’ would be.</p>	CIMA	
444.	100.7	<p>This Paragraph provides for increased understanding of compliance with the fundamental principles. However, we believe that the word “whether” should be deleted in the first sentence, increasing the clarity of the paragraph.</p>	BDO	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
445.	100.9	It is unrealistic for this paragraph to state that a professional accountant ‘ <b>shall</b> take qualitative as well as quantitative factors into account when evaluating the significance of a threat’ (emphasis added). This is an example of a requirement that must be amended, as there may be no qualitative factors or quantitative factors in a particular circumstance. Therefore, the drafting of this paragraph requires further thought. We have not suggested alternative wording, as this is simply an example of a general shortcoming in the Exposure Draft.	ACCA	
446.	100.9	We suggest the language “when necessary, resign from the client” be changed to “when necessary, resign from the engagement”.	CICA	
447.	100.9	In our opinion, it is the effectiveness of safeguards rather than the significance of the threats that is of prime relevance in any decision the professional accountant may need to make about declining or withdrawing from a specific engagement. Evaluating the significance of threats in making such a decision would be necessary only when there are no possible safeguards, or safeguards are insufficiently effective. A requirement for the professional accountant to evaluate the significance of a threat in deciding whether to decline or withdraw, for which there are adequate safeguards would result in an inefficient use of resources. We suggest this paragraph be redrafted accordingly, to clarify this aspect.	FEE	
448.	100.9	In our opinion, it is the effectiveness of safeguards rather than the significance of the threats that is of prime relevance to any decision the professional accountant may need to make about declining or withdrawing from a specific engagement. Evaluating the significance of threats would be necessary only when there are no possible safe-guards, or safeguards are insufficiently effective. A requirement for the professional accountant to evaluate the significance of threats for which there are adequate safeguards would result in an inefficient use of resources. We suggest this paragraph be redrafted accordingly, to clarify this aspect.	IDW	

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
449.	100.10	In Section 100.10 an inadvertent violation of the Code “may not be deemed to compromise compliance [with the Code].” Whether or not an inadvertent violation compromises compliance with the Code is a matter to be decided by a regulator or judicial body. NASBA recommends that the wording be changed to state: “Such an inadvertent violation, depending on the nature and significance of the matter, may not compromise compliance with the fundamental principles provided....,” , which is the IESBA’s position. NASBA suggests the same concept be applied in Section 110.2 by deleting the words “deemed to be.” In Section 290.13, just begin the sentence with, “A network firm shall be independent...”	NASBA	
450.	100.11	The last sentence would be clearer if worded: “If the professional accountant discusses the matter with the relevant regulatory authority, the substance of that discussion shall be documented.”	IDW	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
451.	100.11	<p>Suggested Amendment:</p> <p>In exceptional <del>and unforeseen</del> circumstances <del>that are outside the control of the professional accountant, the firm or employing organization, and the client</del>, the <u>strict</u> application of a specific requirement in the Code may result in an outcome that a reasonable and informed third party would not regard as being in the <u>public</u> interest <del>of the users of the output of the professional services</del>. In such circumstances, the professional accountant may judge <u>an alternative course of action as more appropriate than it necessary to depart temporarily from that a</u> specific requirement. <u>Such a departure Following such an alternative</u> would be acceptable only if all of the following conditions are met:</p> <ul style="list-style-type: none"> <li>• <del>The professional accountant discusses</del> the matter with <b>those charged with governance</b>; <u>and obtains their concurrence with the discussion shall include the nature of the exceptional and unforeseen circumstance, the fact that the circumstance is outside the control of the relevant parties, why in the professional accountant's judgment that it is necessary to depart temporarily from the application of a specific requirement in the Code in the particular facts and circumstances is not in the public interest, taking into account</u> and any safeguards <del>that applied or to will</del> be applied;</li> <li>• The professional accountant documents the matters discussed with those charged with governance;</li> <li>• <u>If the relevant IFAC member body or regulator has established a process, whether formal or informal, for professional accountants to seek concurrence with the professional accountant's judgment that the application of a specific requirement in the Code in the particular facts and circumstances is not in the public interest, the professional accountant shall comply with such process;</u></li> <li>• <u>The nature of the departure and the reasons for the departure are appropriately disclosed to the users of the output of the professional services</u> <del>The professional accountant applies safeguards that those charged with governance, and the member body or regulator where relevant, agree are appropriate under the particular facts and circumstances;</del> and</li> </ul> <p style="text-align: right;">Con't</p>	DTT	

\* See Definitions.

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
451.45	100.11	<ul style="list-style-type: none"> <li>The professional accountant complies with the requirements of the Code at the earliest date that compliance can be achieved.</li> </ul> <p><del>The professional accountant may wish to discuss the matter with the relevant regulatory authority. If the accountant has such a discussion, the substance of that discussion shall be documented.</del></p>	DTT	
452.45	100.12	<p>100.12 (and 200.1 and 300.6) - We note that the revised wording removes discussion of ‘examples’ and adopts wording which states that the specific requirements in B and C are specific requirements, with the overall framework being applied only when the specific circumstances are not addressed by the requirements in B and C. Although an apparently minor change in wording, this could be seen, together with the change to more ‘black and white’ wording, as an important (and regrettable) move away from considering the Code to be principles based, with some specific requirements deeming what appropriate actions are in some circumstances, to a rules-based code, with some principles to sweep up anything not thought about. The IESBA has not publicly suggested that there is a fundamental change of mindset along these lines and we hope this is not the case. We understand that there is a concern in some areas that the word ‘examples’ implies a more optional approach than is intended. However, we believe that the proposed change of wording can be revisited to clarify that the fundamental principles are paramount and that the detailed requirements explain how these principles shall be applied in particular circumstances, which actually cover most of those typically faced by professional accountants.</p>	ICAEW	

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
453.45	100.12 (and paragraphs 200.1 and 300.6)	<p>We note that the revised wording has replaced discussion of ‘examples’ in such a way that not only are the specific requirements in parts B and C paramount, but the overall framework is to be considered only when the specific circumstances are not addressed by those requirements. Although an apparently minor change in wording, this could be seen as an important (and regrettable) move away from considering the Code to be principles based, with some specific requirements deeming what appropriate actions are in some circumstances, to a rules-based code, with some principles to sweep up anything not thought about. The IESBA has not publicly suggested that there is a fundamental change of stance and we hope this is not the case.</p> <p>We understand that there has been some concern about the status of the examples being misunderstood but urge that the proposed change of wording is revisited to clarify that the fundamental principles are paramount and that the detailed requirements explain how these principles shall be applied in particular circumstances, being those typically faced by professional accountants.</p>	FEE	
454.45	100.12	<p>We note that the revised wording in paragraphs 100.12, 200.1 and 300.6 removes discussion of ‘examples’ and adopts wording which states that there are specific requirements, with the overall framework being applied only when these do not address the specific circumstances. Although this is an apparently minor change in wording, we are concerned that again it could be seen as a move away from considering the Code as being principles based.</p>	LSCA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
455-49	100.12	<p>It is clearly the stated intention of the IESBA that the Code should follow a principles-based approach, and ACCA is wholly in favour of such an approach. The Board’s drafting conventions project has the objective of enhancing the clarity and understandability of the provisions in the Code, and therefore, the Code should convey throughout the fact that the conceptual framework is paramount when the professional accountant encounters threats to the fundamental principles. This is clearly stated in the explanatory memorandum to the Exposure Draft, which states on page (v) that ‘in all cases, the objective to be achieved, as outlined in the conceptual framework, is for the professional accountant to comply with the fundamental principles’. However, this situation is not reflected in the proposed paragraph 100.12. Instead, Parts B and C would become rules-based.</p> <p>We support the work undertaken by the IESBA that attempts to clarify the requirements of the Code by way of using language that is more assertive. However, Parts B and C of the Code provide <b>guidance</b> in specific situations, and it is impossible to reconcile the prescriptive language used in these sections (‘shall’ instead of ‘should’) with the fact that Part A contains the overriding requirements of a principles-based approach</p>	ACCA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
456.45	100.12	<p>Further to our comment above regarding this paragraph, we should like to emphasise our concern regarding a perceived move from a principles-based Code to a rules-based Code. Paragraph 100.12 currently states that Parts B and C ‘include examples that are intended to illustrate’ the application of the framework, and states that ‘the framework should be applied to the particular circumstances encountered by the professional accountant’. Although we understand the concern that the status of ‘examples’ may be misunderstood, it appears to us that the proposed wording is more likely to lead to a misunderstanding of the whole framework approach, and that the proposed changes to the wording are too extreme. We would suggest the following:</p> <p>‘Parts B and C of this Code <del>describe</del><u>contain guidance, intended to illustrate</u> how the conceptual framework is to be applied <u>in specific circumstances</u>. Parts B and C do not describe all the circumstances that could be experienced by a professional accountant that create or may create threats to compliance with the fundamental principles. Therefore, in any situation not explicitly addressed by Parts B or C, the professional accountant shall apply the framework when evaluating the specific facts and circumstances. <u>In any situation that is addressed by Part B or C, it is not sufficient for a professional accountant merely to comply with the guidance provided; rather, the need to apply the framework to the specific circumstances encountered shall be determined.</u>’</p> <p>This proposed wording should be considered in conjunction with that suggested above for paragraph 100.11, as to incorporate both paragraphs into the Code as amended would result in a degree of repetition. (Any amendment to the proposed paragraph 100.12 should result in similar changes to paragraphs 200.1, 300.1 and 300.6.)</p>	ACCA	
457.45	100.12	<p>We understand that there has been some concern about the status of the examples being misunderstood but urge that the proposed change of wording is revisited to clarify that the fundamental principles are paramount and that the detailed requirements explain how these principles shall be applied in particular circumstances, being those typically faced by professional accountants. <i>(also applies to 200.1 and 300.6)</i></p>	CNCC	
458.45	100.12	<p>We agree the specific comments of CNCC about this paragraph</p>	CSOEC	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
459.46	100.12	Parts B and C of this Code describe how the conceptual framework is to be applied. Parts B and C do not describe all the circumstances that could be experienced by a professional accountant that <del>create or</del> may create threats to compliance with the fundamental principles. Therefore, in any situation not explicitly addressed by Parts B or C, the professional accountant shall apply the framework when evaluating the specific facts and circumstances.	BDO	
460.46	100.12	We firmly believe in a principles based Code. We are therefore concerned over the wording in certain paragraphs of the code i.e. paragraphs 100.12, 200.1 and 300.6 respectively. The wording in these paragraphs appears to suggest a move away from a principles based Code, as reference to the overarching principles appears to be the last port of call as opposed to the first,	ICAS	
461.46	100.13	We suggest that the last line before the listed examples read “Many threats fall into <u>one or more of</u> the following categories:”	CICA	
462.46	100.13	<p>Article 100.13 (Part A) mentions that professional accountants in public practice may also find Part C relevant to their particular circumstances. We wonder why Part B has not been qualified as also potentially being relevant to professional accountants in business.</p> <p>As a matter of principle, we have objections to this specific clause, since it is not clear whether a professional accountant in public practice might be held responsible for not complying with the requirements in Part C and whether he risks disciplinary sanctions in such situation. We therefore propose to drop the reference to Part C in 100.13. However, if IESBA chooses to maintain this clause we request:</p> <ul style="list-style-type: none"> <li>- to clarify what exactly is meant by this clause. Please clarify in particular whether a professional accountant is required to apply the additional requirements and/or guidance and what the consequences are if he does not apply the additional requirements and/or guidance in Part C;</li> <li>- to introduce a similar clause in respect of accountants in business.</li> </ul>	NIVRA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
463.46	100.13	100.13 (b), as redrafted, is too long, and clarity is impaired. The definition is also narrower than it was previously, as the proposed definition would not include the situation where a professional accountant becomes aware of an error previously made by the professional accountant or the firm.	ACCA	
464.46	100.13	<p>We are generally comfortable with the change to the description of threats in this paragraph.</p> <p>However, we note that a number of the rewritten sentences in paragraph 100.13 (b) and elsewhere have become very long. This does not assist with clarity of understanding.</p> <p>Additionally, subparagraph 100.13 (c) needs to be redrafted, as the cause and effect are not portrayed logically. The threat is to objectivity, and may be caused by being asked to promote an employer's position.</p>	FEE	
465.46	100.13 and 200.3	We think that the wording in §100.13 and in §200.3 should be homogeneous on the way threats are defined.	Mazars	
466.46	100.13(b)	<p>As stated above, we are generally comfortable with the description of the threats, but this sentence is unclear and again very long. We suggest it could be shortened without compromising the meaning, for example:</p> <p><i>b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant or by another individual within the professional accountant's firm or employing organization. <del>on which the accountant will rely when forming a judgment as part of providing a current service</del></i></p>	CIMA	
467.46	100.13(b)	100.13 (b) - We note that a number of the rewritten sentences here and elsewhere have become very long. This does not assist with clarity of understanding.	ICAEW	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
468-46	100.13(c)	This subparagraph needs to be redrafted, as the cause and effect are not portrayed logically. The threat is to objectivity, and may be caused by being asked to promote an employer's position.	IDW	
469-47	100.13(c)	Under 100.13 (c), the removal of the word 'subsequent' changes the meaning to such an extent that the definition is no longer logical.	ACCA	
470-47	100.13(d)	I am slightly uneasy about Para 100.13(d). Was it written by someone who is in or has been in public practice? One's best clients are those with whom one has had a long and close relationship. In such cases, the best possible services can be given because one is deeply aware of all their circumstances and requirements. I do not understand how any accountant can be "too sympathetic" to a client's interests. I understand what this paragraph is trying to say, but it is a very fine point and the current wording could at least be said to be misleading. The accountant's actions should be conducted as a result of an inner professional detachment which in no way should endanger the closeness of the relationship (which itself enables the best possible service).	AAT	
471-47	100.13(d)	This paragraph contains an ambiguous use of the word "their". While it is more cumbersome, we suggest that clarity might be improved if the parties to whom "their" refers were repeated. In addition we suggest that it should also include a reference to sympathy to "co-workers" or "colleagues" interests or work rather than the somewhat more limiting "employer's" interests or work.	CICA	
472-47	100.13(d)	It is our view that this paragraph would describe the familiarity threat more accurately if it included reference to the broader range of relationships that can result in such a threat. For example those mentioned in Section 300.12 which are of particular relevance to accountants working in business.	CIMA	
473-47	100.14	100.14: categories should be (a) and (b);	NIVRA	
474-47	100.14	Categories should be (a) and (b).	FEE	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
475.47	100.15	We note that in some instances bullets are used while in others a lettering system is used. It is unclear whether this difference was intentional.	CICA	
476.47	100.19	<p>100.19 When initiating either a formal or informal conflict resolution process, a professional accountant shall consider the following, either individually or together with others, as part of the resolution process:</p> <ul style="list-style-type: none"> <li>(a) Relevant facts;</li> <li>(b) Ethical issues involved;</li> <li>(c) Fundamental principles related to the matter in question;</li> <li>(d) Established internal procedures; <u>and</u></li> <li>(e) Alternative courses of action.</li> </ul> <p>.....</p> <p>110.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:</p> <ul style="list-style-type: none"> <li>(a) Contains a materially false or misleading statement;</li> <li>(b) Contains statements or information furnished recklessly; <u>or</u></li> <li>(c) Omits or obscures information required to be included where such omission or obscurity would be misleading.</li> </ul> <p>.....</p> <p>and so on.</p> <p>We wonder when using items in the Code, such as items (a), (b), (c) and (d), do the underlined words “and” and “or” ahead of the last item have substantive difference?</p>	CICPA	
477.47	100.19	100.19 – It is unclear why the words “consistent with the fundamental principles identified” have been deleted. This wording was a useful reminder of the underlying purpose of the Code.	ICAEW	
478.47	100.19	It is unclear why the words “consistent with the fundamental principles identified” have been deleted. This wording was a useful reminder of the underlying purpose of the Code.	FEE	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
479.48	100.19	The penultimate sentence states: “The professional accountant <i>shall</i> weigh the consequences of each possible course of action.” Making a requirement to consider every possible action that a professional accountant could possibly take appears to be too broad a mandate. Therefore, a professional accountant will not be able to comply with the “shall” in this context. We suggest that the wording be revised to reflect “all reasonable courses of action” or “all courses of action deemed reasonable in the professional accountant’s judgment.”	GTI	
480.48	100.19	Implementation of these sections will be subject to the analysis of internal accounting controls. (b,d) [also 100.21]	JM	
481.48	100.19	Comment: When initiating either a formal or informal conflict resolution process, a professional accountant shall consider the following, either individually or together with others, as part of the resolution process: (a) Relevant facts; (b) Ethical issues involved; (c) Fundamental principles related to the matter in question; (d) Established internal procedures; and <u>[NOTE: in addition firm policies and external standards and regulations should be considered.]</u> (e) Alternative courses of action.	DTT	
482.48	100.20	A professional accountant employed within an audit firm would, depending on his or her position in the firm’s hierarchy, normally refer the relevant matter to the partner responsible for the individual audit engagement in the first instance, as opposed to directly seeking contact to those charged with governance of the client entity.	FEE	
483.48	100.20	A professional accountant employed within an audit firm would, depending on his or her position in the firm’s hierarchy, normally refer the relevant matter to the partner responsible for the individual audit engagement in the first instance, as opposed to directly seeking contact to those charged with governance of the client entity.	IDW	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
484.48	100.21	For clarity and accuracy, this paragraph should refer to the documentation of ‘discussions held <b>and</b> decisions made’, rather than ‘discussions held <b>or</b> decisions made’.	ACCA	
485.48	100.22	<p>This paragraph starts with the words ‘If a significant conflict cannot be resolved...’. We consider this to be inappropriate, as a significant conflict <b>must</b> be resolved if the professional accountant is to retain the engagement or employment or remain associated with the engagement. We also believe that it is not sufficiently robust to state that the professional accountant ‘may consider’ obtaining professional advice. We suggest that this paragraph starts with the sentence:</p> <p>‘If the professional accountant believes that a significant conflict cannot be resolved, the professional accountant shall consider obtaining professional advice from the relevant professional body or from legal advisors, before taking appropriate action in accordance with paragraph 100.23’.</p>	ACCA	
486.48	100.22	In our view, when a significant conflict cannot be resolved, it would be appropriate for the professional accountant to be required to consider whether to obtain professional advice. We suggest the first sentence be amended to require such consideration.	IDW	
487.48	100.22	<p>We generally agree with the proposal to change “consider” in several paragraphs into either “evaluate” or “determine”, to make the Code more robust. We understand that “consider” will be used where the accountant is required “to think about” several matters and that “determine” will be used when the accountant has to conclude and make a decision; therefore “decide” could be used as well.</p> <p>In the majority of the paragraphs “considering” is an obligation, because of the use of “shall” with respect to “consider”. However, this is not the case in paragraph 100.22, because of the use of “may”. We believe that the word ‘may’ can be deleted, since it is important that significant conflicts are solved in a due process.</p> <p>We suggest the first sentence be amended to require such consideration.</p>	FEE	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
488-48	100.22	We suggest that moving the word “generally” to the beginning of the second sentence would improve the clarity of the thought.	CICA	
489-49	100.22	We believe that the word ‘may’ can be deleted, since it is important that significant conflicts are solved in a due process.  We suggest the first sentence be amended to require such consideration.	CNCC	
490-49	100.22	A change in wording to Section 100.22 recommends that the professional accountant discuss a matter with the “relevant professional body on an anonymous basis”. NASBA believes that Section should also recommend that the issue be discussed with the relevant regulatory body.	NASBA	
491-49	100.23	This paragraph appears to recognise that it is not always possible to withdraw from an engagement. However, it would be useful to elaborate on what the options are for the professional accountant in the situation where he is not permitted, by law or regulation, to withdraw from the engagement.	ACCA	
492-49	100.23	Although it appears to be recognised in this paragraph that it is not always possible to withdraw from an engagement, we believe it would be useful to also elaborate on what the options are for the professional accountant in case he is not allowed by law or regulation to withdraw from the engagement. This would be helpful to address the perception that the professional accountant has a continuing duty of care to for instance external shareholders.	FEE	
493-49	100.23	It is not always possible to withdraw from an engagement ;  We believe that the Code should be more specific and precise on the various options which are offered to the professional accountant in the case where is not allowed by law or regulation to withdraw from the engagement. This would be helpful to address the perception that the professional accountant has a continuing duty of care to for instance external shareholders	CSOEC	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
494.49	110.2	It would be consistent with the Code to use the designation “professional accountant” instead of just “accountant” in all instances. Therefore, in the last sentence added to paragraph 110.2, the accountant should read as the “professional” accountant.	FEE	
495.49	110.2	110.2, proposed text at the bottom, 120.2, 300.4: it would be consistent with the Code to use the designation “professional accountant” instead of just “accountant”, in a sentence in which the word “professional accountant” has already been used (compare with, for example, the first sentence of the same paragraph, 110.3 or 320.6);	NIVRA	
496.49	110.3	110.3 (and a number of other places) – There are a number of statements in the draft Code that “A professional accountant will not be deemed to be...” We are aware that a similar construct is used by the SEC and in that context correctly implied that there was a central regulatory authority that would opine on the circumstances. The point of the Code is that the professional accountant makes the decision within an overall framework and this wording does not fit well. It can be resolved easily by deleting the words “be deemed to” to make a straightforward statement that the professional accountant will not be in breach...	ICAEW	
497.49	110.3	There are a number of statements in the draft Code that “A professional accountant will not be deemed to be...” We are aware that the US SEC uses this but in that context there is a central regulatory authority that will opine on the circumstances. This is not always the case. Indeed the point of the Code is that the professional accountant makes the decision within an overall framework and this wording does not fit well. It can be resolved easily by deleting the words “be deemed to” to make a straightforward statement that the professional accountant will not be in breach. (and a number of other places like 290.13)	FEE	
498.49	110.3	We suggest that the words ‘a modified report’ be replaced with the words ‘an appropriately modified report’.	ACCA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
499-500	120.2	This paragraph, as amended, states that the professional accountant cannot act if circumstances bias the accountant's professional judgement. This implies that the professional account cannot, for example, act as the client's or the employer's advocate. The paragraph would be more accurately worded if the word 'unduly' was moved to precede the word 'biases'. (The test of undue bias should be based on the perception of a reasonable and informed third party.)	ACCA	
500-501	120.2	120.2 – The new wording refers to a situation which “biases or unduly influences...” It would be preferable to place the word “unduly” in front of “biases” as the potential problem with bias is as much a question of degree as influence.	ICAEW	
501-502	120.2	A financial stake in the auditee impairs objectivity. (a) Exceptions would be few if ever appropriate.	JM	
502-503	120.2	The last sentence should be expanded to the effect that it applies “...unless appropriate safeguards are in place...”. As drafted, this is a ban on services if a professional accountant's judgment is affected in any way at all, which is clearly not within the spirit of the conceptual framework approach.	IDW	
503-504	120.2	<p>The new wording refers to a situation which “biases or unduly influences...” It would be preferable to place the word “unduly” in front of “biases” as the potential problem with bias is as much a question of degree as influence.</p> <p>The last sentence should be expanded to the effect that it applies “...unless appropriate safeguards are in place...”. As drafted this is a ban on services if a professional accountant's judgment is affected in any way at all.</p> <p>The final paragraph could usefully include further comment to remind the user that the perception of the “reasonable and informed third party” is relevant.</p>	FEE	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
504.50	120.2	<p>The new wording refers to a situation which “biases or unduly influences...” It would be preferable to place the word “unduly” in front of “biases” as the potential problem with bias is as much a question of degree as influence.</p> <p>The last sentence should be expanded to the effect that it applies “...unless appropriate safeguards are in place...” As drafted this is a ban on services if a professional accountant’s judgment is affected in any way at all.</p> <p>The final paragraph could usefully include further comment to remind the user that the perception of the “reasonable and informed third party” is relevant</p>	CSOEC	
505.50	120.2	<p>This is an example where the phrase “circumstance or relationship” is used, as opposed to “activity or relationship”. We have not detailed each instance, but we suggest if the difference in use is not deliberate, that a review for consistency be undertaken.</p>	CICA	
506.50	120.2 (and paragraph 300.4)	<p>It would again be consistent with the Code to use the designation “professional accountant” instead of just “accountant”, in a sentence in which the word “professional accountant” has already been used (compare with, for example, the first sentence of the same paragraph, 110.3 or 320.6).</p>	FEE	
507.50	120.2	<p>Individuals have inherent biases and merely because a circumstance or relationship biases the accountant’s judgment is not per se a circumstance where the only result is that the professional accountant shall not perform the service. Paragraph 120.1 provides that the issue is whether the professional accountant’s judgment is compromised because of bias.</p> <p>Suggested Amendment: A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. A professional accountant shall not perform a professional service if a circumstance or relationship biases or unduly influences the accountant’s professional judgment with respect to that service <u>such that the professional accountant’s objectivity is compromised.</u></p>	DTT	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<del>508.50</del>	130	ADD Reliance on and the independent evaluation of the work of experts may be necessary for the accountant to render an opinion(s). i.e. relevant experts may be appraisers, engineers, estimators etc. (b)	JM	
<del>509.51</del>	130.1	<p>ED stated:            ... The principle of professional competence and due care <b>imposes the following obligations on all professional accountants:</b>            (a) To maintain professional knowledge and skill ...; and            (b) To act diligently in accordance with applicable technical and professional standards            ...</p> <p>Suggested Amendment:            A professional accountant <b>shall maintain</b> professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques. When such services are provided, a professional accountant <b>shall act diligently</b> and in accordance with applicable technical and professional standards.</p>	APB	
<del>510.51</del>	130.2	Paragraph 130.2 deals with both attainment and maintenance of professional competence, but the subsequent paragraph deals only with maintenance. It lacks guidance on attainment.	PwC	
<del>511.51</del>	130.6	There appears to be a word missing at the end of this paragraph. We suggest it should refer to 'services offered'.	ACCA	
<del>512.51</del>	130.6	Further words need to be added to make more sense of the paragraph, such as "given or offered".	FEE	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
513.51	140	<p>Surveillance impairs confidentiality and makes difficult the "privity of contract" accountability and overall relationship. The auditor and the auditor's attorneys should consider getting assurances from the telephone carrier of the client to mitigate or lessen this problem. Failure to cooperate could lead to leaving the engagement or action in the courts.</p> <p>The telephone carrier of the client is in a privileged position and has no privity of contract with the auditor, the auditor's legal counsel or the auditor's work product . The telephone carrier is not bound by this Code of Ethics.</p> <p>In actuality, the telephone carrier conducting surveillance has insider information generally not available to the public or potential investors. (c,d)</p>	JM	
514.51	140.1	<p>ED Stated: The principle of confidentiality <b>imposes an obligation on all professional accountants</b> to refrain from:</p> <ul style="list-style-type: none"> <li>(a) Disclosing outside the firm or employing organization confidential information acquired ...; and</li> <li>(b) Using confidential information acquired ... to their personal advantage ...</li> </ul> <p>Suggested Amendment: A professional accountant <b>shall respect the confidentiality</b> of information acquired as a result of professional and business relationships <b>and shall not disclose</b> any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. <b>Confidential information</b> acquired as a result of professional and business relationships <b>shall not be used</b> for the personal advantage of the professional accountant or third parties.</p>	APB	
515.51	140.4	<p>The use of "shall" in this paragraph requires the professional accountant to be aware of the need to maintain confidentiality. Since the confidentiality requirement is clear in paragraph 140.3, the additional requirement in paragraph 140.4 now appears redundant</p>	GTI	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<del>516.51</del>	140.4	140.4 – The revised wording requires that the professional accountant “shall <i>be aware of</i> the need to maintain confidentiality”. This requirement to be aware something is a slightly odd constraint when the requirement is presumably to maintain confidentiality (as with 140.3).	ICAEW	
<del>517.51</del>	140.4	The revised wording requires that the professional accountant “shall <i>be aware of</i> the need to maintain confidentiality”. Surely the requirement is to maintain confidentiality (as is the case with paragraph 140.3).	FEE	
<del>518.51</del>	140.4	<p>This paragraph includes a requirement that the professional accountant “shall be aware of the need to maintain confidentiality... within the firm...”. We suggest that the clarity and enforceability of this provision might be improved by including some guidance as to how the accountant might be able to demonstrate compliance with such a requirement, such as establishing policies to prevent the unnecessary sharing of information.</p> <p>Similarly, paragraph 300.17 includes a requirement that the professional accountant “shall consider obtaining legal advice”. We suggest that clarity and enforceability might be improved if documentation of that decision was required.</p>	CICA	
<del>519.52</del>	140.6	The word “shall not” ought to read “may not” as this is the correct negation of a requirement.	IDW	
<del>520.52</del>	140.7	In Para 140.7, there should be an extra clause which permits disclosure when reporting on any matter under the money-laundering regulations or any other aspect of criminality. Perhaps this is supposed to be implied in (a), but it certainly would not be authorised by the client!	AAT	
<del>521.52</del>	140.7 (b)	Categories should be (i) and (ii).	FEE	
<del>522.52</del>	140.7 (b)	140.7, (b): categories should be (i) and (ii);	NIVRA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
523-52	140.7 (c)	Categories should be (i) to (iv).	FEE	
524-52	140.7 (c)	140.7, (c): categories should be (i) to (iv);	NIVRA	
525-52	150.1	<p>ED Stated: The principle of professional behavior <b>imposes an obligation on all professional accountants</b> to comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know may discredit the profession. ...</p> <p>Suggested Amendment: A professional accountant <b>shall comply</b> with relevant laws and regulations <b>and shall avoid</b> any action that discredits the profession.</p>	APB	
526-52	150.1	We are not in favour of the current use of wording “in a negative manner” and would prefer “adversely affects the good reputation of the profession”.	FEE	
527-52	150.1	It is not clear what constitutes an action that the professional accountant ‘should know’ may discredit the profession. We suggest removing this.	CIMA	
528-52	200.1	We think that in § 200.1 it should be clear that the conceptual framework applies in all circumstances, even for those described in the Code and that in all cases, the accountant uses his professional judgment to evaluate the threat and define the appropriate safeguards.	Mazars	
529-53	200.2	200.2 (and others, for example new paragraph 300.7 and, with use of ‘may compromise, 100.8) – This paragraph (200.2) has not changed substantially but perhaps should do given the very clear requirement. To require a professional accountant not to do something which “might” (or “may”) impair integrity etc is actually a very sweeping requirement. Almost anything might impair integrity if the circumstances turn out wrong. These should be rephrased to ensure the requirements are realistic.	ICAEW	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<del>530-53</del>	200.2 (and new paragraph 300.7)	This paragraph has not changed substantially but perhaps should do. To require a professional accountant not to do something which “might” compromise integrity etc is a very wide-ranging requirement. Almost anything might impair integrity if the circumstances turn out wrong. This perhaps should be rephrased along the lines of not doing something which impairs, or which a reasonable and informed third party would consider would impair the fundamental principles.	FEE	
<del>531-53</del>	200.3	In the rewrite the word “many” has been dropped, implying that all potential threats must fall into one of the five categories listed. To deal with all possible circumstances, we think “many” should be restored.	FEE	
<del>532-53</del>	200.3	Paragraph 200.3 is not an easy read and may benefit from being broken down.	PwC	
<del>533-53</del>	200.3	200.3 – In the rewrite the word “many” has been dropped, implying that all potential threats must fall into one of the five categories listed. In the spirit of dealing with all circumstances, we think “many” should be restored.	ICAEW	
<del>534-53</del>	200.3	We suggest that clarity would be improved if the second sentence read as follows:  “The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to an audit client and whether the <u>audit</u> client is a public interest entity, <u>to</u> an assurance client that is not an audit client or <u>to</u> a non-assurance client.”	CICA	
<del>535-53</del>	200.4	The last bullet point is not a self-interest, but a self-review threat, which should appear under paragraph 200.5.	IDW	
<del>536-53</del>	200.4	Paragraph 200.4 – the word “close” should be deleted from the 3 <sup>rd</sup> dot point to be consistent with the wording used in the section that covers paragraphs 290.124 to 290.126.	APESB	
<del>537-53</del>	200.4	200.4 – While the revised examples in this paragraph are not unreasonable, they are very biased towards assurance services. Section 200 is meant to address all services provided by practitioners.	ICAEW	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<del>538-53</del>	200.4	<p>Two of the bullet points use the word ‘significant’. This is inappropriate, because the significance of the threat is not relevant to these examples. In addition, the word ‘significant’ is not defined.</p> <p>While the revised examples in this paragraph are not unreasonable, they are very biased towards assurance services. Section 200 is intended to address <b>all</b> services provided by the professional accountant in public practice.</p> <p>The second bullet point should refer to ‘a firm, individual office or partner’ having undue dependence on total fees from a client.</p> <p>The final bullet point of this paragraph is, in fact, an example of a self-review threat, and should appear instead under paragraph 200.5.</p>	ACCA	
<del>539-54</del>	200.4	<p>While the revised examples in this paragraph are not unreasonable, they are very biased towards assurance services. Section 200 is meant to address all services provided by practitioners.</p> <p>The second bullet point needs to read “a firm, individual office or partner having undue dependence on total fees ...”.</p> <p>The last bullet point is not a self-interest, rather a self-review threat, which should appear under paragraph 200.5</p>	FEE	
<del>540-54</del>	200.4	<p>Bullets 2 and 4 refer to a “firm” having undue dependence on fees from a client and being concerned about the possibility of losing a significant client, respectively. We acknowledge that these are simply examples but suggest that consideration be given to including a reference to a “firm or a partner of the firm” to recognize the situation where an individual partner may be faced with similar circumstances.</p>	CICA	
<del>541-54</del>	200.4 to 200.8	<p>It is incorrect to state that all the examples given in these paragraphs always create threats. Therefore, we disagree with the deletion of the word ‘may’ in the first line of each paragraph.</p>	ACCA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
542-54	200.4 to 200.8 (and paragraph 240.5)	<p>We note that, at the bottom of page vii of the explanatory memorandum, the IESBA explains that the IESBA has taken the view that a particular relationship or circumstance creates a threat, and accordingly has changed the word “may” to “does” in various instances. Given the infinite variation in possible circumstances, there may be instances where threats will not <i>always</i> be created.</p> <p>Therefore, the relevant sentences of the Code in paragraphs 200.4 to 200.8 and 240.5 should be amended to read: “...create or may create...” to reflect this.</p>	FEE	
543-54	200.5	Self-review is subject to the availability of others and other experts. Disaster recovery and expropriation threats may limit viable alternatives to the engagement auditor.	JM	
544-54	200.6	<p>This (dot point 2) would not necessarily be true for a non-audit assurance client.</p> <p>Suggested Amendment: Examples of circumstances that create advocacy threats include:</p> <ul style="list-style-type: none"> <li>• The firm promoting shares in an audit client.</li> <li>• A professional accountant acting as an advocate on behalf of an <del>audit</del> assurance client in litigation or disputes with third parties.</li> </ul>	DTT	
545-54	200.7	The use of the word ‘assurance’ under the final bullet point is irrelevant for the purpose of the examples in this section of the Code.	ACCA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
546-54	200.7	<p>Suggested Amendment: Examples of circumstances that create familiarity threats include:</p> <ul style="list-style-type: none"> <li>• A member of the engagement team having a close or immediate family relationship with a director or officer of the client.</li> <li>• A member of the engagement team having a close or immediate family relationship with an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.</li> <li>• <u>A director or officer of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently <i>served as the lead audit</i> <del>been a partner on the client's audit engagement</del> of the firm. [NOTE: This is inconsistent with 290.134, and 136, which indicate that a threat may not exist.]</u></li> <li>• A professional accountant accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential. <u>[NOTE: Under paragraph 260.1, self-interest and intimidation threats are mentioned, but not familiarity.]</u></li> <li>• Senior personnel having a long association with the assurance client.</li> </ul>	DTT	
547-54	200.8	Under this paragraph, the second bullet point describes fee dependency. Under paragraph 290.221, fee dependency is said to be a self-interest threat, rather than an intimidation threat.	ACCA	
548-54	200.8	<p>We believe the examples provided in the second bullet are a good example of intimidation threats. However, we believe that the example provided in the fifth bullet is too narrow a situation to be relevant. We offer an alternate example for this bullet:</p> <p><i>A member of the engagement team is being encouraged to take a pragmatic view of an aggressive or unusual position presented by the client</i></p>	BDO	
549-55	200.8	The fifth bullet point refers to a matter of technical competence that an auditor is required by ISA 220 to address (i.e. the necessary competence on the engagement team). We do not agree that this is a valid example of an intimidation threat to an auditor facing an audit client.	IDW	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<del>550-55</del>	200.8	The fifth bullet point relates to a matter of technical competence that an auditor is required by ISA 220 to address (it mandates competence on the team or use of an expert). This might therefore not be a valid example of an intimidation threat to an auditor facing an audit client in all circumstances.	FEE	
<del>551-55</del>	200.8	We suggest that the fifth bullet be modified to refer to “feeling pressured to agree with the judgment of a client employee because the employee has <u>or may have</u> more expertise”. The threat may still exist even if the professional accountant simply believes that the client employee has more expertise. As drafted, the example implies that the client employee must actually have more expertise than the professional accountant.	CICA	
<del>552-55</del>	200.8	<p>Suggested Amendment:</p> <p>Examples of circumstances that create intimidation threats include:</p> <ul style="list-style-type: none"> <li>• A firm being threatened with dismissal from a client engagement.</li> <li>• An audit client indicating that it will not award a planned non-assurance contract to the firm if the firm continues to disagree with the client’s accounting treatment for a particular transaction.</li> <li>• A firm being threatened with litigation by the client.</li> <li>• A firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees.</li> <li>• A professional accountant feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question.</li> <li>• <u>A professional accountant being</u> informed by a partner of the firm that a planned promotion will not occur unless the accountant agrees with an audit client’s inappropriate accounting treatment. <u>[NOTE: We suggest deleting this example as the partner’s actions would violate the Code.]</u></li> </ul>	DTT	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<del>553-55</del>	200.10	Paragraph 200.10 requires a professional accountant to exercise judgment when determining how “best” to deal with an identified threat. With the “shall” wording, there appears to be a requirement that the professional accountant is required to select the “best” safeguard or safeguards to eliminate or reduce the threat to an acceptable level. Due to the facts and circumstances, there may be several safeguards that can be used either individually or collectively to eliminate or reduce the threat to an acceptable level. A requirement to select the “best” appears too stringent and we believe not in the original context of the Code.	GTI	
<del>554-55</del>	200.12	The original wording of paragraph 200.12 was more readable: “they must be independent” rather than “independence is required”.	FEE	
<del>555-55</del>	200.13	It is unclear what the point of the word “previous” is in the first example.	FEE	
<del>556-55</del>	200.13	200.13 – It is unclear what the point of the word “previous” is in the first example.	ICAEW	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
557.55	200.13	<p>In addition, we do not agree with certain examples of safeguards that are provided in the Code. For example, paragraph 200.13 provides examples of engagement-specific safeguards in the work environment. Two safeguard examples appear to involve using other professional accountants in a particular firm (who were not part of the team providing the services) to review the work performed by the engagement team. The first states, "Having a professional accountant who was not involved with the previous non-assurance service review the non-assurance work performed or otherwise advise as necessary." The second states, "Having a professional accountant who was not a member of the assurance team review the assurance work performed or otherwise advise as necessary." Some of our members would question whether this is an adequate safeguard given the self-interest and self-review threat that also exists on a firm-wide basis. For example, if the firm has provided a non-audit service that will be subject to audit, the firm is not independent, and so the two actions just described would not constitute suitable safeguards for an audit engagement in those jurisdictions. We have some concern that the language in this paragraph might be misinterpreted and lead the professional accountant to conclude that a self-interest and self-review threat only applies to the individuals on an engagement team, rather than to the entire firm itself.</p>	IOSCO	
558.55	210.3	<p>Another example of an inadequate safeguard is included in Paragraph 210.3. The safeguard example is to secure "the client's <i>commitment</i> to improve corporate governance and internal controls." Although we agree this is a best practice or a good quality control, we do not believe that a promise by management and/or those charged with governance to make changes in the future is a sufficient tangible action to use as a safeguard to mitigate an identified threat.</p>	IOSCO	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<del>559-56</del>	210.3 and 230.2	<p>Comment:</p> <p>A professional accountant in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level. <u>[NOTE: We favor this construction, as opposed, for example to paragraph 230.2. This construction is not only active versus passive, but more importantly, makes clear that it is the professional accountant who is responsible for evaluating the significance of threats, etc. There are numerous places throughout the Code where one or the other constructions is used. For the reasons stated, as well as consistency, we suggest they all be written as above. By doing so, any potential misunderstanding that might arise because of the difference will be eliminated.]</u></p>	DTT	
<del>560-56</del>	210.4	<p>Suggested Amendment:</p> <p>Where <u>the professional accountant determines</u> it is not possible to reduce the threats to an acceptable level, the professional accountant in public practice shall decline to enter into the client relationship. <u>[NOTE: This is an example where we believe it would be helpful to specify who is responsible for making the judgment. There are numerous similar statements in the Code that we would recommend be changed along these lines.]</u></p>	DTT	
<del>561-56</del>	210.5	<p>Does the change of “should” to “shall” in Paragraph 210.5 remove professional judgment from the professional accountant? - <i>“The professional accountant in public practice shall periodically review acceptance decisions for recurring client engagements.</i> Inclusion of “shall” in this context may unnecessarily impose additional external regulatory requirements rather than be left to each firm’s individual policies and procedures.</p>	BDO	
<del>562-56</del>	210.5	<p>Paragraph 210.5 appears to be an inappropriate use of “shall”. To periodically review acceptance decisions for recurring client engagements is of course good practice (not least from a risk management perspective) but to mandate such a review in a Code of Ethics seems inappropriate, and it is not evident which fundamental principle is at issue. This should be guidance in our view.</p>	PwC	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
563-56	210.5	<p>This may be one of the few cases where the change to “shall” is too stringent a requirement. We fail to see that a professional accountant has engaged in unethical behavior merely because client acceptance decisions are not periodically reviewed, particularly if there are no facts and circumstances arising since the engagement was initially accepted to cause the accountant to need to reconsider the engagement. No doubt, it is a good business practice; however, mandating this requirement, which would result in a violation of the Code if the accountant does not comply, seems to go too far.]</p> <p>Suggested Amendment: The professional accountant in public practice shall <u>consider</u> periodically reviewing acceptance decisions for recurring client engagements.</p>	DTT	
564-56	210.6	<p>210.6 A professional accountant in public practice shall agree to provide only those services that the professional accountant in public practice is competent to perform. Before accepting a specific client engagement, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. <u>For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.</u></p> <p>We also note in paragraph 100.13:</p> <p><u>(a) Self-interest threat - the threat that a financial or other interest will inappropriately influence the professional accountant’s judgment or behavior;</u> .....</p> <p>We think the underlined example in paragraph 210.6 is inappropriate because it is not in accordance with the underlined explanation of self-interest threat in paragraph 100.13.</p>	CICPA	
565-56	210.8	<p>We suggest that once the revision and redrafting of ISA 620 has been finalised by the IAASB, the requirements of this paragraph be brought into line with ISA 620.</p>	ACCA	

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
<del>566-56</del>	210.8	ISA 620 covers this issue. We suggest that once ISA 620 has been finalized by the IAASB, the requirements be brought in line	IDW	
<del>567-56</del>	210.8	ISA 620 covers this issue. We suggest that once the revision and redrafting of ISA 620 has been finalized by the IAASB, the requirements be brought in line.	FEE	
<del>568-56</del>	210.9	I particularly welcome Para 210.9. When writing to a past accountant on behalf of a new client, I have never been entirely clear what the term "any professional reason why we cannot act" means. This paragraph goes some way towards clarifying this. Even more examples would be very welcome.	AAT	
<del>569-57</del>	210.11	We recommend that the words 'unless there is satisfaction as to necessary facts by other means' be deleted. Safeguards are either adequate or they are not.	ACCA	
<del>570-57</del>	210.11	We wonder how this caters for the issue of serious fraud or money laundering concerns found by the incumbent professional accountant; 'tipping off' is not an option yet continuing in post is not an option either; no help is given to this very real problem.	FEE	
<del>571-57</del>	210.11	We believe that the intent of the last paragraph is somewhat unclear. If the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, we are unclear as to what "other means" might be available to provide the professional accountant with "satisfaction as to necessary facts".	CICA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
572-57	210.11	<p>Comment: Safeguards shall be applied, when necessary, to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> <li>When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted; <u>[NOTE: it is not clear how this safeguard either eliminates or reduces the threats noted in paragraph 210.9, i.e., professional competence and due care.]</u></li> </ul>	DTT	
573-57	210.12	<p><i>A professional accountant in public practice may be asked to undertake work that is complementary or additional to the work of the existing accountant. Such circumstances may create threats to professional competence and due care resulting from, for example, a lack of or incomplete information. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is notifying the existing accountant of the proposed work, which would give the existing accountant the opportunity to provide any relevant information needed for the proper conduct of the work.</i></p> <p>The objectives of clarity have not been achieved here. This statement does not sufficiently enumerate risks present; additional transparency and explanation is needed due to the fact that the level of responsibility for the professional accountant has been raised to “shall”.</p>	BDO	
574-57	210.14	210.14 – Removal of the word “ordinarily” results in an illogical paragraph (a sentence giving an absolute requirement, followed by a sentence referring to when the requirement is not absolute).	ICAEW	
575-57	210.14	Removal of the word ‘ordinarily’ results in an apparently illogical paragraph. The proposed sentence appears to be an absolute requirement, and yet it is followed by a sentence referring to when the requirement is not absolute. Whilst we agree with the removal of the word ‘ordinarily’, clarity may be achieved by ending the first sentence with the words ‘to the proposed accountant’.	ACCA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
576-57	210.14	Removal of the word “ordinarily” results in an illogical paragraph. A sentence is included giving an absolute requirement, yet it is followed by a sentence referring to when the requirement is not absolute.	FEE	
577-57	210.14	<p>The word “ordinarily” has been deleted; however, by doing so, these two sentences conflict.</p> <p>Suggested Amendment: In the absence of specific instructions from the client, an existing accountant shall not <u>generally</u> volunteer information about the client’s affairs. Circumstances where it may be appropriate to disclose confidential information are set out in Section 140 of Part A of this Code.</p>	DTT	
578-57	220.3	Paragraph 220.3 states, "Depending upon the circumstances giving rise to the conflict, application of one of the following safeguards <i>is generally</i> necessary." We believe this sentence should state, "Depending upon the circumstances giving rise to the conflict, the professional accountant <i>shall</i> apply one or more of the following safeguards."	IOSCO	
579-58	230.3	I think Para 230.3 is too soft. "Second Opinions" are a touchy subject to accountants in public practice and I strongly believe that, if they are being sought whilst the client is still willing to remain a client of the original accountant, the client should be expected to be entirely open and transparent about the whole process, as should the original accountant. If this is not the case, the client should merely sever his links and go elsewhere (presumably to the Second Opinion).	AAT	
580-58	240.1	I find Para 240.1 very interesting. I have certainly been in tendering situations where I have been unsuccessful and have subsequently discovered that the successful accountant had tendered so low that it would have been impossible to carry out the work correctly. But I fail to see how this can be policed. The usual case is that clients ask for tenders without realising what they are asking for or what they are getting. They often receive a far higher fee eventually, with the accountant claiming there were various "add-ons" outwith the tender.	AAT	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
581-58	240.3	<p>240.3 .....</p> <ul style="list-style-type: none"> <li>Whether the outcome or result of the transaction is to be reviewed by an <u>independent third party</u>.</li> </ul> <p>240.4 .....</p> <ul style="list-style-type: none"> <li>Review by an <u>objective third party</u> of the work performed by the professional accountant in public practice.</li> </ul> <p>We wonder the difference between the underlined “independent third party” and “objective third party”.</p>	CICPA	
582-58	250.2	<p>In applying the clarity convention, we note that the verb in paragraph 250.2 has been changed from ‘should consult’ to ‘shall consider consulting’. It would seem to us that it the verb should have been changed to ‘shall consult’.</p>	CEBS	
583-58	250.2	<p>Paragraph 250.2 appears to require that the professional accountant consult with a relevant professional body. We believe that the wording should be revised to encourage, but not require such consultation. The professional accountant should use his or her own professional judgment, based on the facts and circumstances, on when he or she should consult with a relevant professional body.</p>	GTI	
584-58	250.2	<p>The Exposure Draft’s proposed change in wording of Section 250.2 significantly weakens the existing Code. The current Code states the professional accountant “should consult with the relevant professional body” if the accountant is in doubt whether a proposed form of advertising or marketing is appropriate. The Exposure Draft proposes to eliminate the requirement to consult by stating that the professional accountant in doubt merely “consider consulting.” If the professional accountant is in doubt, the only way to resolve the doubt is for the professional accountant to consult.” The current wording should not be changed. NASBA also believes that the situation could also be discussed with the relevant regulatory body and that this concept should be added to the Code.</p>	NASBA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
585-58	260	Although comments were not requested other than on the redraft of the Code, it became clear while reading through the Code in its entirety that there appeared to be a <i>lacuna</i> in paragraph 260, which made mention of the receiving of gifts and hospitality as impacting on independence, but made no mention of the giving of gifts and hospitality <b>by the professional accountant</b> (our emphasis) as having a similar impact on independence. The Committee would like this matter to be investigated by the IESBA during a subsequent review of the Code.	SAICA	
586-58	270.3	We believe that it is not sufficiently robust to state that the professional accountant ‘may also consider seeking legal advice’. We suggest that this wording be changed to ‘shall consider obtaining legal advice’.  <u>Independence – Audit and review engagements contents</u> The paragraph references are incorrect from IT ‘Systems Services’ (290.201) onwards.	ACCA	
587-58	280.2	ED Stated: A professional accountant in public practice who provides an assurance service <b>is required</b> to be independent of the assurance client.  Suggested Amendment: A professional accountant in public practice who provides an assurance service <b>shall be</b> independent	APB	
588-58	280.2	Paragraph 280.2 – the words “is required to” in the opening sentence should be replaced with the word “shall”.	APESB	
589-59	290.1	This paragraph ought to refer not only to financial statements but also to elements of financial statements, in line with ISA 805	IDW	
590-59	290.1	This paragraph should also refer to review engagements to report on <b>elements</b> of financial statements, in line with ISA 805	ACCA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
591.59	290.1	This paragraph ought to refer not only to financial statements but also to elements of financial statements, in line with ISA 805.	FEE	
592.59	290.1	<p>290.1 This section addresses the independence requirements for <b>audit engagements*</b> and <b>review engagements*</b>, which are assurance engagements in which a professional accountant in public practice expresses a conclusion on <b>financial statements.*</b> <u>Such engagements comprise audit and review engagements to report on a complete set of financial statements and a single financial statement.</u> Independence requirements for assurance engagements that are not audit or review engagements are addressed in Section 291.</p> <p>As it is prescribed in the underlined sentence, the independence requirements of Section 290 can only apply to audit and review engagements to report on a complete set of financial statements and a single financial statement, but we wonder which requirements apply for audit engagements of other historical financial information, such as audit engagements of specified accounts, elements of accounts or items in a financial statement. We suggest clarifying in the Code of this question.</p>	CICPA	
593.59	290.2	The term “restriction on use and distribution” should be amended to read “restriction on use or distribution”. Whilst the distribution may be restricted in the terms of the engagement contract, restriction on use may not be legally effective in all jurisdictions. This also applies at other points throughout the Code. We suggest they also be amended, possibly using a search technique.	FEE	
594.59	290.2	The term “restriction on use and distribution” should be amended to read ” restriction on use or distribution”. Whilst the distribution may be restricted in the terms of the engagement contract, restriction on use may not be legally effective in all jurisdictions (see ISAs 800 and 805). This also applies to other points throughout the Code. We suggest they also be amended, possibly using a search technique.	IDW	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<del>595.59</del>	290.4	ED Stated: Compliance with the fundamental principle of objectivity <b>requires</b> being independent of audit clients. In the case of audit engagements, it is in the public interest and, therefore <b>required by this Code of Ethics</b> , that members of audit teams, firms and network firms be independent of audit clients.  Suggested Amendment: ... it is in the public interest that members of audit teams, firms and network firms <b>shall be</b> independent of audit clients.	APB	
<del>596.59</del>	290.7	In paragraph 290.7, one of the changes has been to remove ‘eliminating the activity’ and replace it with, ‘eliminate the circumstances.’ We would just question whether this has made the Code less clear and therefore may be weakening the Code. For example, activity seems a more direct word to use rather than ‘circumstances’.	CEBS	
<del>597.59</del>	290.7	Paragraph 290.7 discusses the conceptual framework of identifying threats to independence, evaluating the threats, and applying safeguards if threats are not at an acceptable level. Paragraph 290.7 (c) states, "Apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level." We believe this sentence should state, "If threats exist that are not at an acceptable level, the professional accountant <i>shall</i> apply safeguards to eliminate the threats or reduce them to an acceptable level."	IOSCO	
<del>598.59</del>	290.8	In line with our comment on paragraph 100.6 above, in our opinion paragraph 290.9 covers this issue. Accordingly, paragraph 290.8 is redundant and can be deleted	IDW	
<del>599.60</del>	290.8	In line with our comment on paragraph 100.6 above, in our opinion paragraph 290.9 covers this issue. Accordingly, paragraph 290.8 is redundant and can be deleted.	FEE	
<del>600.60</del>	290.13	There may be AFFILIATE relations or relationships to network firms. The Standard should utilize and define the word affiliate. A network of firms may include major and minority shareholder interests or parental entity control.	JM	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
601-60	290.27	<p>The proposed changes from “should consider” that related entity to “shall include” have the effect that a related entity becomes the “audit client” if the team knows of a single relationship that may create threats to independence. For example, if the firm is engaged to design and implement an IT system for the parent of an audit client that is not a listed entity and the team is aware, or should be aware of the engagement, the fact that the system impacts the reporting system at the subsidiary audit client cannot be ignored. However, in the case, must the parent be deemed an audit client for purposes of Section 290 such that all unknown relationships or circumstances that the audit team has no knowledge of must be identified? We believe this goes beyond the intent of this paragraph, which is to require consideration of known relationships or circumstances that create a threat to independence with respect to the firm’s audit client.</p> <p>Suggested Amendment: In the case of an audit client that is a <b>listed entity</b><sup>*</sup>, references to an audit client in this section include related entities of the client (unless otherwise stated). For all other audit clients, references to an audit client in this section include related entities over which the client has direct or indirect control. When the audit team knows or has reason to believe that a relationship or circumstance involving another <b>related entity</b><sup>*</sup> of the client is relevant to the evaluation of the firm’s independence from the client, the audit team shall include that <u>related entity-relationship or circumstance</u> when identifying and evaluating threats to independence and applying appropriate safeguards.</p>	DTT	
602-60	290.30	<p>ED Stated: Independence from the audit client <b>is required</b> both during the engagement period and the period covered by the financial statements. ...</p> <p>Suggested Amendment: Members of the audit team, the audit firm and network firms <b>shall be</b> independent from the audit client both during ...</p>	APB	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
603.60	290.32	<p><i>Having <u>a professional accountant</u> review the audit and non-assurance work as appropriate;</i></p> <p>We think the underlined “a professional accountant” is ambiguous. We suggest clarifying whether the professional accountant is in or outside of the engagement team, or mayby outside of the firm.</p> <p>[also , 290.105, 290.113, 290.115, etc:]</p>	CICPA	
604.60	290.32	<p>We would suggest that a provision dealing with mergers and acquisitions be inserted here. The circumstances that could give rise to independence issues are not limited to the provision of non-assurance services. Consequently, we believe the provision should be of a general nature covering all of the relationships in Section 290. Below is an example of such a provision.</p> <p>Suggested Amendment:</p> <p><u>If during the period covered by the financial statements, an audit client of the firm acquires or merges with another entity that is not an audit client of the firm, and the financial statements of the acquired or merged entity will be included in the financial statements on which the firm will express an opinion, the firm shall determine whether there are any interests or relationships with the acquired or merged entity that would create threats to independence. Such interests or relationships shall generally be terminated prior to the acquisition or merger. However, there may be interests or relationships that, despite the firm’s best efforts, cannot be completed or terminated before the entity becomes part of the audit client and the firm may agree to transitional arrangements with the audit client designed to ensure that such interests or relationships are terminated as soon as possible. In such cases, the firm shall evaluate the threats created by such interests or relationships and apply safeguards to reduce any threats created to an acceptable level. The professional accountant shall discuss the matter with those charged with governance and where appropriate, the relevant regulatory authority or professional body. If the firm determines that no safeguards will reduce the threats to an acceptable level, the firm shall withdraw from the audit engagement.</u></p>	DTT	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
605.60	290.102	290.102 “The existence and significance of any threat <del>created</del> depends on: (a)...”	PwC	
606.60	290.103	<p>290.103 <del>The determination of w</del>Whether such financial interests are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. <del>When A beneficial owner who has control over the investment vehicle or the ability to influence investment decisions exists, this Code defines that financial interest to be has a</del> <b>direct financial interest*</b>. Conversely, <del>when the a</del> beneficial owner <del>of the financial interest who</del> has no control over the investment vehicle or ability to influence its investment decisions, <del>this Code defines that financial interest to be</del> <b>has an indirect financial interest.*</b></p> <p><b>Inadvertent violations</b> There are different "inadvertent violation" clauses; those clauses vary in their approach, language and effect.</p> <ul style="list-style-type: none"> <li>• 100.10 "may not be deemed to compromise compliance with the fundamental principles provided ..."</li> <li>• 290.33 "generally will not be deemed to compromise independence provided"</li> <li>• 290.117 that "relates to a financial interest in an audit client <i>is not deemed</i> to compromise independence if ..."</li> <li>• 290.133 that "relates to family and personal relationships <i>is not deemed</i> to compromise independence if ..."</li> <li>• 290.159 "inadvertent provision of such a [non-assurance] service to a related entity ... <i>does not compromise</i> independence if ..."</li> </ul> <p>Of these 5 paragraphs, only the last, 290.159, states that the inadvertent violation "does not compromise". Our preference would be to drop the word “deemed” but if nevertheless it is retained, the Code should deem that "independence is not compromised".</p> <p>There is a significant difference between "independence is not deemed to be compromised" and "independence is not compromised" (or alternatively "independence is deemed not to be compromised") – it would be clearer if "not" were attached to the verb "compromise", rather than to the verb "deem".</p>	PwC	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
607.60	290.103	290.103 could usefully clarify that the interest held in the intermediary vehicle (e.g. the collective investment fund) is itself a direct interest for the investor.	PwC	
608.60	290.106	This paragraph clearly states that a member of the audit team, for example, shall not have a financial interest in an entity that has a direct financial interest in a client where ‘the client is material to the entity’. The paragraph is significantly weakened by the absence of an explanation of materiality in this context.	ACCA	
609.61	290.113	290.113 (and 291.33) – This previously did not specify who should give consideration to the potential threats. It now requires the firm to undertake this. Is this always appropriate	ICAEW	
610.61	290.113 and 291.33	This paragraph previously did not specify who should give consideration to the potential threats. It now requires the firm to undertake this. Is this always appropriate?	FEE	
611.61	290.114	<p>ED Stated: The holding ..., of a direct financial interest or a material indirect financial interest in the audit client as a trustee ... <b>Holding such an interest is only permitted when ...</b></p> <p>Suggested Amendment: <b>...Holding such an interest shall only be permitted when: ...</b></p>	APB	
612.61	290.116	290.116 (c) concludes by saying that ‘pending disposal of the financial interest, a determination shall be made as to whether any safeguards are necessary’. Why is this not considered relevant to (a) and (b) also?	ACCA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
613.61	290.116	<p>(a) If the interest is received by the firm, <b><u>the financial interest shall be disposed of immediately, or a sufficient amount of an indirect financial interest shall be disposed of</u></b> so that the remaining interest is no longer material, or the firm shall withdraw from the audit engagement;</p> <p>(b) If the interest is received by a member of the audit team, or a member of that individual’s immediate family, <b><u>the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest</u></b> so that the remaining interest is no longer material, or the member shall be removed from the team; or</p> <p>(c) If the interest is received by an individual who is not a member of the audit team, or by an immediate family member of the individual, <b><u>the financial interest shall be disposed of as soon as possible, or a sufficient amount of an indirect financial interest shall be disposed of</u></b> so that the remaining interest is no longer material. Pending the disposal of the financial interest, a determination shall be made as to whether any safeguards are necessary.</p> <p>We think the underlined sentences are ambiguous in two points:            (1) The terms “financial interest” in bold are ambiguous. We suggest that they should be clarified whether they include direct financial interests or indirect financial interests, and we wonder if all the direct financial interests should be disposed of or not.            (2) The words “or” in bold are misleading, by using that words, it can be understood that the auditor need only dispose of a sufficient amount of the indirect financial interest and need not dispose of the direct financial interest.            We suggest that this paragraph and paragraph 291.111 should be modified to solve these two problems.</p>	CICPA	
614.61	290.117	<p>ED Stated:            An inadvertent violation of this section as it relates to a financial interest in an audit client is not deemed to compromise independence <b>if all of the following conditions are met:</b>            ...</p> <p>Suggested Amendment:  <b>All of the following conditions shall be met</b> if an inadvertent violation of this section as it relates to a financial interest in an audit client is not to be deemed to compromise independence: ...</p>	APB	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
615.61	290.119	Paragraph 290.119 – the reference to “... a professional accountant from a network firm ...” should be replaced with “... a professional accountant outside the Firm...”.	APESB	
616.61	290.121	<p>ED Stated: If the firm or a member of the audit team, or a member of that individual’s immediate family, accepts a loan from, or has a borrowing guaranteed by, an audit client that is not a bank or similar institution, the self-interest threat created would be <b>so significant that no safeguards could reduce the threat to an acceptable level</b>, unless the loan or guarantee is immaterial to both the firm, or the member of the audit team and the immediate family member, and the client.</p> <p>Suggested Amendment: ... Therefore, <b>neither</b> the firm, or a member of the audit team or a member of that individual’s immediate family <b>shall accept</b> a loan from or have a borrowing guaranteed by an audit client that is not a bank or similar institution, where the loan or guarantee is material to either the firm or the member of the audit team or the immediate family member or the client.</p>	APB	
617.61	290.122	<p>ED Stated: Similarly, if the firm or a member of the audit team, or a member of that individual’s immediate family, makes or guarantees a loan to an audit client, the self-interest threat created would be <b>so significant that no safeguards could reduce the threat to an acceptable level</b>, unless the loan or guarantee is immaterial to both the firm, or the member of the audit team and the immediate family member, and the client.</p> <p>Suggested Amendment: ... Therefore, <b>neither</b> the firm, or a member of the audit team or a member of that individual’s immediate family <b>shall make or guarantee</b> a loan to an audit client, where the loan or guarantee is material to either the firm or the member of the audit team or the immediate family member or the client.</p>	APB	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<del>618-61</del>	290.123	This paragraph does not explain why a deposit with a bank, held under normal commercial terms, does not create a threat to independence. This is unlikely to be the perception of a reasonable and informed third party.	ACCA	
<del>619-62</del>	290.124, 290.508, 291.119,	In the paragraphs and on the pages referenced to above, both the terms ‘close business relationships’ and ‘business relationships’ are used in the same context. It is not clear to us whether these terms are supposed to have the same meaning or not. If the meaning of these terms is the same, then one term should be used consistently, if not, the difference in meaning should be made clear.	FEE	
<del>620-62</del>	290.124	Paragraph 290.124 – the word “close” should be deleted from the opening sentence to be consistent with the preceding heading	APESB	
<del>621-62</del>	290.124 (a)	The term “insignificant level” ought to read “acceptable level”, in line with the terminology in the last sentence of this paragraph.	FEE	
<del>622-62</del>	290.124 (a)	The term “insignificant level” ought to read “acceptable level”, in line with the terminology in the last sentence of this paragraph.	IDW	
<del>623-62</del>	290.124 (a)	There is confusion in the introductory wording which implies that if the business relationship is insignificant, a professional accountant could enter into such a relationship and that no safeguards would need to be applied. However, in using “shall” in (a): “The business relationship shall not be entered into, or shall be reduced to an insignificant level or terminated” clearly introduces a bright line for the professional accountant not to enter into such a relationship.	GTI	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
624.62	290.128	<p>Paragraph 290.128 requires that a member of the audit team be removed from the team where an immediate family member is a director or officer of the audit client or an employee able to exercise influence over the accounting records or financial statements. Paragraph 290.128 does not offer alternative safeguards to removal from the audit team. However, there may be situations where this removal may be difficult and there is no substantive threat to independence. For example, where the immediate family member is employed in a related entity for which the audit team member has no involvement and that audit team member has specific skills which are not easily replaced or is in the chain of command. In such a situation we believe a similar alternative safeguard as that indicated in paragraph 290.129 would be adequate to resolve this violation. Paragraph 290.129 provides the following as an alternative safeguard to removal from the audit team: “structuring the responsibilities of the audit team so that the professional does not deal with matters that are within the responsibility of the immediate family member”.</p>	EYG	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
625-62	290.128	<p>This is a possibility to address the concern in our comment letter that this provision, as drafted, is too restrictive and circumstances could arise, perhaps not infrequently, where the threat to independence is not significant.</p> <p>Suggested Amendment: When an immediate family member of a member of the audit team is:</p> <ul style="list-style-type: none"> <li>(a) A director or officer of the audit client; or</li> <li>(b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion,</li> </ul> <p>or was in such a position during any period covered by the engagement or the financial statements, the threats to independence can only be reduced to an acceptable level by removing the individual from the audit team. The closeness of the relationship is such that no other safeguards could reduce the threat to an acceptable level. <del>If this safeguard is not applied, the firm shall withdraw from the audit engagement.</del></p> <p><u>Notwithstanding the above, there may be circumstances where the threats to independence when an immediate family member of a member of the audit team held such a position may not be considered significant. Such would be the case, for example, if an immediate family member of a member held the position for a very short time at the beginning of the year and other client personnel are responsible for the financial statements on which the firm will express an opinion. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.</u></p>	DTT	
626-62	290.131	<p>ED Stated: ... Members of the audit team <b>are responsible for</b> identifying any such persons and for consulting in accordance with firm policies and procedures. ...</p> <p>Suggested Amendment: ... Members of the audit team <b>shall be responsible for</b> identifying ...</p>	APB	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
627-62	290.133	<p>ED Stated: An inadvertent violation of this section ... is not deemed to compromise independence <b>if</b>:</p> <ul style="list-style-type: none"> <li>(a) The firm has established policies and procedures ...;</li> <li>(b) The inadvertent violation relates to ..., and the relevant professional is removed from the audit team; and</li> <li>(c) The firm applies other safeguards when necessary ...</li> </ul> <p>Suggested Amendment: <b>All of the following conditions shall be met if an inadvertent violation of this section ... is not to be deemed to compromise independence:</b></p>	APB	
628-62	290.135	<p>ED Stated: If a former member of the audit team or partner of the firm has joined the audit client in such a position and a significant connection remains between the firm and the individual, the threat would be <b>so significant that no safeguards could reduce the threat to an acceptable level</b>. Therefore, independence would be deemed to be compromised if ..., unless: ....</p> <p>Suggested Amendment: <b>... Therefore, a former member of the audit team or partner shall not join the audit client as ..., unless:</b></p>	APB	
629-63	290.140	<p>ED Stated: <b>... No safeguards could reduce these threats to an acceptable level unless</b> twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.</p> <p>Suggested Amendment: <b>... Therefore, a firm's Senior or Managing Partner shall not join the audit client as a director ... until twelve months have passed ...</b></p>	APB	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
630-63	290.145	Paragraph 290.145 – the final sentence should clarify that the review shall be undertaken by a senior person in the engagement team.	APESB	
631-63	290.148 (and 291.137)	The logic of the revised second sentence does not quite flow correctly: 'despite [a prohibition], when permitted by law, the activity shall be limited to x,y,z'. Is it not despite [a prohibition], when permitted by law, the activity <i>may be carried out</i> if limited to x,y,z?	FEE	
632-63	290.148	290.148 (and 291.137) -The logic of the revised second sentence does not quite flow correctly: 'despite [a prohibition], when permitted by law, the activity shall be limited to x,y,z'. Is it not despite [a prohibition], when permitted by law, the activity <i>may be carried out</i> if shall be limited to x,y,z?	ICAEW	
633-63	290.150	We note that paragraph 290.150 of the proposed Code mentioned about the threats from the long association of senior personnel with an audit client. Furthermore, one of the example safeguards against the threats as mentioned in this paragraph is regular independent internal or external quality reviews of the engagement. We suggest the IESBA clarifies the meaning of “external quality reviews” and whether it includes having a member of the network firm to perform the review. We are also concerned about the cost-benefit issue as the cost arising from the regular independent external quality reviews of the engagement may outweigh the benefits for smaller clients.	HKICPA	
634-63	290.150 and 290.151	<i>Partner Rotation with an Audit Client</i> We believe additional clarification is needed here. It is unclear which partners should be excluded from the rotation requirements. Conceptually, rotation requirements may be elevated to the subsidiary’s audit partners, but the Code as is currently drafted does not provide sufficient clarification for this situation.	BDO	
635-63	290.151	The CNCC suggests that the cooling off period provided for in the case of lead engagement partner rotation be explicitly defined as "two audited financial years", rather than two years, since the notion of audited period seems to be more relevant. Therefore using the expression "financial year", in our view, would contribute to avoiding any ambiguity	CNCC	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
636-63	290.152	With respect to the rules on partner rotation, we believe that the example presented in the explanatory memorandum is an emergency situation similar to that outlined in paragraph 290.172 where bookkeeping services are permitted in emergency situations and an appropriate solution would be to allow, subject to additional safeguards, the key audit partner to remain on the engagement until a new audit partner is identified.	EYG	
637-63	290.152	<p>This is a possible change for dealing with an exceptional circumstance involving partner rotation if the decision is to delete paragraph 100.11.</p> <p>Suggested Amendment: Despite paragraph 290.151, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm’s control, be permitted an additional year on the audit team as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key audit partner may remain on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. <u>In any case where the firm believes it is in the public interest for either a key audit partner to continue as a member of the audit team beyond one additional year or a partner who had previously been a key audit partner during the past two years to become a key audit partner again, the circumstances shall be discussed with those charged with governance and any relevant regulator.</u></p>	DTT	
638-63	290.155	<p>ED Stated: When a firm ... rotation of key audit partners may not be an available safeguard. If ..., an individual may remain a key audit partner for more than seven years, in accordance with such regulation, <b>provided that</b> the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.</p> <p>Suggested Amendment: ... Where an independent regulator ..., and an individual remains a key audit partner for more than seven years, in accordance with such regulation, <b>alternative safeguards specified by the independent regulator shall be applied</b>, such as a regular independent external review.</p>	APB	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<del>639.64</del>	290.167	<p>We note that paragraph 290.167 of the proposed Code set out two responsibilities of the management for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. We are of the view that the following responsibilities should also be included:</p> <ul style="list-style-type: none"> <li>(a) Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;</li> <li>(b) Selecting and applying appropriate accounting policies; and</li> <li>(c) Making accounting estimates that are reasonable in the circumstances.</li> </ul>	HKICPA	
<del>640.64</del>	290.173	<p>ED Stated: Despite paragraph 290.172, a firm may provide accounting and bookkeeping services, ... if the personnel providing the services are not members of the audit team and:</p> <ul style="list-style-type: none"> <li>• The divisions or related entities for which the service is provided are collectively immaterial ...; or</li> <li>• The services relate to matters that are collectively immaterial ...</li> </ul> <p>Suggested Amendment: Despite paragraph 290.172, where a firm provides accounting and bookkeeping services, ... the personnel providing the services <b>shall not be members</b> of the audit team <b>and the following conditions shall be met:</b> ...</p>	APB	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
641-64	290.174	<p>ED Stated: Accounting and bookkeeping services, ..., may be provided to audit clients in emergency or other unusual situations ... In such situations a firm may provide such services if: (a) Those who provide the services are not members of the audit team; and (b) The services are provided for only a short period of time and are not expected to recur. ...</p> <p>Suggested Amendment: <b>... In such situations, the following conditions shall be met: ...</b></p>	APB	
642-64	290.174	<p>Paragraph 290.174 includes an exception for providing accounting and bookkeeping services, which would not otherwise be permitted, “in emergency or other unusual situations where it is impractical for the audit client to make other arrangements”. This appears to be mixing two very different kinds of conditions. We believe that “emergency situations” would be widely understandable around the world as natural or man-made catastrophes, ranging from catastrophic disasters to lesser but still problematical emergencies such as major system crashes and the like. But the phrase “or other unusual situations when it is impractical to make other arrangements” is very broad and could be interpreted and applied inconsistently on a global basis (or even within a country.) We believe that the exception for “other unusual situations” should be removed. If the IESBA chooses to keep the exception in the Code, we request that the Board clarifies what is intended to be covered by this condition. Further, the term “impractical” is not defined in the Code. As the term is vague, there could be inconsistent interpretation and application or potential abuse. For example, multinational audit clients not infrequently have small offices or joint venture operations in remote locations that are far removed from the company’s main operations. If it is the intent of the IESBA to allow the auditor to provide accounting and bookkeeping services for such locations, because it is “impractical” for management to arrange otherwise, the IESBA should address this explicitly in the Code and include the rationale and safeguards that the Board considers to be appropriate (i.e., is impractical intended to mean not possible, or just not cost effective?). That way, auditors, issuers and regulators would have a clear and consistent understanding of what is intended. The current text used in the Code is ambiguous.</p>	IOSCO	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
643.64	290.186	<p>ED Stated: The preparation of calculations of current and deferred tax liabilities (or assets) ... may be provided to audit clients in emergency or other unusual situations ... In such situations a firm may provide such services if:</p> <ul style="list-style-type: none"> <li>(a) Those who provide the services are not members of the audit team; and</li> <li>(b) The services are provided for only a short period of time and are not expected to recur.</li> </ul> <p>...</p> <p>Suggested Amendment: ... In such situations, the following conditions shall be met: ...</p>	APB	
644.64	290.188	<p>Outside the US, the term “private ruling” may not be understood and this will improve the clarity.</p> <p>Suggested Amendment: A self-review threat may be created where the advice will affect matters to be reflected in the financial statements. The existence and significance of any threat will depend on factors such as:</p> <ul style="list-style-type: none"> <li>• The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements;</li> <li>• The extent to which the outcome of the tax advice will have a material effect on the financial statements;</li> <li>• Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework;</li> <li>• The level of tax expertise of the client’s employees;</li> <li>• The extent to which the advice is supported by tax law or regulation, other precedent or established practice; and</li> <li>• <u>Whether the tax treatment is supported by a private ruling that is specific to the client’s facts and circumstances</u> or has otherwise been cleared by the tax authority before the preparation of the financial statements.</li> </ul>	DTT	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
645-64	290.198	The Standard should be more specific. Reference should be made to the internal audit report relationship to the Audit Committee of the Board of Directors	JM	
646-64	290.199	Add EDP or DP or IT auditors and internal auditors"	JM	
647-64	290.200	<p><i>Internal Audit Services</i>  <i>In the case of an audit client that is a public interest entity, a firm shall not provide internal audit services that relate to the internal accounting controls, financial systems or financial statements.</i></p> <p>The use of “shall” is problematic, since there are no safeguards available in the Code preventing violations of the Code provisions. This is especially problematic since there are no immateriality thresholds present, and as well as determination of what constitutes an extension of audit procedures.</p>	BDO	
648-64	290.200	<p><i>290.200 In the case of an audit client that is a public interest entity, a firm shall not provide internal audit services that relate to the internal accounting controls, financial systems or financial statements.</i></p> <p><i>290.201 A firm is not, however, precluded from providing to an audit client that is a public interest entity a non-recurring internal audit service to evaluate a specific matter that relates to the internal accounting controls, financial systems or financial statements provided the conditions in paragraph 290.198 are met, the facts and circumstances related to the service are discussed with those charged with governance, the service would otherwise be permitted under Section 290, and safeguards are applied when necessary to reduce any threat to an acceptable level.</i></p> <p>We think paragraphs 290.200 and 290.201 are inconsistent. According to paragraph 290.200, a firm is forbidden from providing to an audit client that is a public interest entity internal audit services, while paragraph 290.201 provides exceptional circumstances that the firm is not precluded from providing to an audit client that is a public interest entity a non-recurring internal audit service. We suggest the two paragraphs be incorporated.</p>	CICPA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
649-65	290.201	We reiterate our concern regarding the proposed exception in paragraph 290.201 for “non-recurring” internal audit services relating to financial reporting. We believe that writing exceptions to the general principles and prohibitions in the Code seriously weaken the Code and will make it harder to work for convergence and global acceptance of the Code. Please refer to Appendix A for additional detail and comments related to Section 290 of the Code.	IOSCO	
650-65	290.202	Add EDP or DP or IT audit services"	JM	
651-65	290.205	ED Stated: The self-review threat is <b>too significant to permit such services unless</b> appropriate safeguards are put in place ...  Suggested Amendment: <b>Such services create significant self-review threats. The firm shall only provide IT systems services if all of the following conditions are met: ...</b>	APB	
652-65	290.217	ADD "client or major subsidiary or joint venture or controlling interest"	JM	
653-65	290.221	In paragraphs 290.221 and 291.151 of the proposed Code, it stated that when the total fees from an audit/assurance client represent a large proportion of the total fees of the firm expressing the conclusion, the dependence on that client and concern about losing the client creates a self-interest threat. The significance of the threat will depend on various factors and one of those is the significance of the client qualitatively and/ or quantitatively to the firm. We suggest that the IESBA clarifies under what circumstances will the client be regarded as qualitatively significant to the firm.	HKICPA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
654.65	290.223	<p>ED Stated: ... when, for two consecutive years, the total fees from the client and its related entities ... represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, <b>the self-interest threat created would be too significant unless</b> the firm discloses to those...</p> <p>Suggested Amendment: ... on the financial statements of the client, <b>the firm shall disclose</b> to those ..., the fact that the total of such fees represents more than 15% of the total fees received by the firm, otherwise the self-interest threat created would be too significant and discuss which of the safeguards below ...</p>	APB	
655.65	290.226	<p>The paragraph which follows paragraph 290.226 should be renumbered from “290.228” to “290.227.</p>	APESB	
656.65	290.226	<p><u>290.226</u> A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of an audit engagement creates a self-interest threat that is so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm shall not enter into any such fee arrangement.</p> <p><u>290.228</u> A contingent fee charged directly or indirectly, for example through an intermediary, by a firm in respect of a non-assurance service provided to an audit client may also create a self-interest threat. The threat created would be so significant that no safeguards could reduce the threat to an acceptable level if: .....</p> <p><u>290.228</u> For other contingent fee arrangements charged by a firm for a non-assurance service to an audit client, the existence and significance of any threats will depend on factors such as: .....</p> <p>We think the paragraph number of the second paragraph is wrong, so we suggest the paragraph number of the second paragraph should be 290.227.</p>	CICPA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
657-65	290.228	<p>ADD "stock options or other fee arrangements because stock options are a form of compensation which may be forbidden due to financial conflict of interest provisos ) (a)</p> <p>Overall, those charged with governance must be the independent Audit Committee of the Board of Directors. IT auditors or Computer auditors should be consulted for computer applications, the data center auditing, computer library, computer contractors and purchasing, disaster recovery, contingency planning, new computer applications or computer applications being tested, the computer operating system and system operations of computer operation system and security system software, password protection hierarchies, onsite temperature and environment controls, mean time between failure for engineering computer hardware/software and computer purchasing supplies.</p> <p>The auditor should consult with other experts in the area of computer algorithms which make/manipulate derivative purchases/sales, computer foreign currency algorithms, artificial intelligence in credit scoring parameters, operations research algorithms in cash management, shortest route algorithms for transportation cost determination, computer algorithms which compute provable mineral reserves and a plethora of mathematical algorithms unfamiliar to the accountant/auditor. In addition, these algorithms must be backed up for disaster recovery mode so that they can be replicated in an emergency or under disaster recovery conditions or in contingency planning scenarios.</p>	JM	
658-65	290.231	<p>Paragraph 290.231 addresses gifts and hospitality and appears to offer no safeguards that can be applied where a member of the audit team accepts a gift or hospitality that is clearly not trivial or inconsequential. We believe that appropriate safeguards can be applied to remedy the non-compliance, such as removal of the individual from the engagement team and, if possible, returning the gift to the audit client</p>	EYG	
659-66	290.231	<p>Our final example is where an audit team member accepts gifts or hospitality that is other than trivial or inconsequential. In such a case, a violation of the Code occurs and the team member may not have inadvertently accepted the gift. The provision would seem to suggest that the auditor must resign, since there is no mention of the possibility to apply safeguards, including the possible safeguard of removing the individual from the audit team and having his or her work reviewed</p>	DTT	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
660-66	290.231	<p>The use of the word “shall” provides no opportunity for safeguards to be applied when a member of the audit team accepts a gift. We believe wording should be introduced which would allow for safeguards in this situation. We suggest the following wording:</p> <p>Accepting gifts or hospitality from an audit client may create self-interest and familiarity threats. If a firm <del>or a member of the audit team</del> accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level <u>and the firm should withdraw from the audit engagement.</u> <del>Consequently, a firm or a member of the audit team shall not accept such gifts or hospitality.</del> <u>If a member of the audit team accepts gifts or hospitality, unless the value is trivial and inconsequential, the individual should be removed from the audit team immediately and the significance of any remaining threats shall be evaluated and safeguards applied when necessary to eliminate the threats to an acceptable level.</u></p>	GTI	
661-66	290.231	<p>This corrects what we believe to be an erroneous provision as the safeguard of removing the individual is available.</p> <p>Suggested Amendment:</p> <p>Accepting gifts or hospitality from an audit client may create self-interest and familiarity threats. If a firm <del>or a member of the audit team</del> accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level <u>and the firm should withdraw from the audit engagement.</u> <del>If a member of the audit team accepts gifts or hospitality, unless the value is trivial and inconsequential, the individual should be removed from the audit team immediately and the significance of any remaining threats shall be evaluated and safeguards applied when necessary to eliminate the threats to an acceptable level.</del> <u>Consequently, a firm or a member of the audit team shall not accept such gifts or hospitality.</u></p>	DTT	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
662-66	290.232	<p><i>The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:</i></p> <ul style="list-style-type: none"> <li>• <i>If the litigation involves a member of the audit team, removing that individual from the audit team; or</i></li> <li>• <i>Having <u>a professional review</u> the work performed.</i></li> </ul>	CICPA	
663-66	290.506 & 290.507	<p><u>Reports that Include a Restriction on Use and Distribution</u></p> <p>We believe that the requirements contained in paragraphs 290.506 and 290.507 of putting the onus on the audit team to check related entities and network firms only when they are aware of a conflict or relationship may not be sufficiently robust. For example assume that all parties agree to the restricted independence requirements to apply to an engagement. The engagement is in relation to a sensitive merger transaction and a week after the transaction is completed a conflict is revealed in a network firm. If the client was aware of the conflict in the network firm then the client would not have engaged the relevant firm. But due to these provisions in the code the audit team will argue that although they “should have known” actually “they did not know” and they will be in compliance with the Code. Accordingly we believe that these provisions should be revised.</p>	APESB	
664-66	290.508	The heading which precedes paragraph 290.508 – the word “close” should be deleted.	APESB	
665-66	291	Although we deleted Sections 291 and Part C because we did not have specific suggested edits, we would recommend the same changes noted above be made in Section 291 and Part C, where applicable.	DTT	
666-66	291.28	We assume the degree of threat has been retained at the 'trivial and inconsequential' level in this paragraph as it is intended to require a two-stage process: assessment at this level whether any aspects of Sections 290/291 need to be applied at all, followed by assessment for those parts to which it does apply, of threats at the acceptable level. This has not been made entirely clear, however.	FEE	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
667-66	291.32	Paragraph 291.32 contains a typographical error – the end of the third line should read “... and the service would <del>be</del> not be ...”.	APESB	
668-66	291.28	291.28 – We understand that the degree of threat has been retained at the 'trivial and inconsequential' level in this paragraph as it is intended that a two-stage process should be applied: assessment at this level of whether any aspects of Sections 290/291 need to be applied at all; followed by assessment in respect of those parties to which it does apply, of whether threats are at the acceptable level. This has not been made entirely clear, however.	ICAEW	
669-67	291.119	Paragraph 291.119 – the word “close” should be deleted from the opening sentence.	APESB	
670-67	291.120	One sentence in this paragraph commences ‘the significance of any shall be evaluated’. This should say ‘the significance of any threat shall be evaluated’.	ACCA	
671-67	291.120	The word “threat” is missing after the word “any” in the following sentence: “ <i>The significance of any shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.</i> ”	FEE	
672-67	291.120	291.120: the word “threat” is missing after the word “any” in the following sentence: “The significance of any shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.”;	NIVRA	
673-67	291.131	We noted that the word “of” should be deleted in the first bullet so that it reads “removing the individual”.	CICA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
674.67	291.159	<p>The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> <li>• If the litigation involves a member of the assurance team, removing that individual from the assurance team; or</li> <li>• Having a <u>professional accountant</u> review the work performed.</li> </ul> <p>.....</p> <p>We think the underlined “a professional” and “a professional accountant” have the same meaning, therefore should use the same words.</p>	CICPA	
675.67	Interpretation 2005-01	<p>In two places, the interpretation says ‘Company 8 accounts for 0.16% of the reserves’. In fact, the figure is closer to 0.17%. In each case, there should be a full stop and a new sentence after ‘reserves’</p>	ACCA	
676.67	300.3	<p>We noted that this paragraph appears to extend the application of Part C of the Code to include some professional accountants, such as volunteers, who are not captured within the defined term “professional accountant in business”. Would the clarity of the Code be improved if the definition itself was revised to include the discussion contained in this paragraph?</p>	CICA	
677.67	300.7	<p>We suggest that the paragraph should read as follows:</p> <p>“A professional accountant in business shall not knowingly engage in any business, occupation or activity that impairs or might impair <u>the accountant’s</u> integrity <u>or</u> objectivity, or the good reputation of the profession...”</p>	CICA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
678-67	300.7 and 300.10	<p>Paragraph 300.7 broadly requires that a professional accountant in business shall not knowingly engage in any activity that impairs or might impair integrity or objectivity. Paragraph 300.10 then indicates a circumstance that creates (not <i>may</i> create) a self-review threat. As a self-review threat by definition might impair fundamental principles such as objectivity, the interaction of these two paragraphs effectively bans the circumstance identified in paragraph 300.10 for professional accountants in business. We do not believe that this was the intention of the Code revision.</p> <p>The circumstance identified in paragraph 300.10 would not be an uncommon one. If it occurred, the Code correctly identifies it as a self-review threat which the professional accountant must address. In our view, this should not be caught by paragraph 300.7. This would indicate to us that the wording of the provision in paragraph 300.7 may be too wide.</p>	ICAA/ CPA Aus/ NIA	
679-68	300.9	The first line of this paragraph is inconsistent with paragraphs 200.4 to 200.8 in that the word ‘may’ has not been deleted. This is also true of paragraphs 300.12 and 300.13.	ACCA	
680-68	300.10	We are concerned that this paragraph and the first bullet of paragraph 300.12 provide examples of very common situations encountered by professional accountants in smaller entities, particularly where the professional accountant’s family owns the entity. In some of these situations the only safeguards that may be available to the professional accountant are the ones that are referred to, but not detailed, in paragraph 300.14(a). The detailed safeguards are actually contained paragraph 100.15, but the reference to that paragraph is made in the last sentence of paragraph 300.14. We suggest that the examples included in paragraphs 300.10 and 300.12 are common enough to many professional accountants that it might be appropriate to repeat the specific safeguards created by the profession, legislation or regulation as part of paragraph 300.14 rather than simply referring to them.	CICA	
681-68	300.10	We suggest referring either to ‘acquisition’ or to ‘business combination’ consistently in this paragraph rather than using both terms.	CIMA	
682-68	300.12	The third bullet point of this paragraph would be more effective if it explained from whom the gift or preferential treatment might be received.	ACCA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
683-68	300.17	We believe that the professional accountant should use his or her professional judgment when determining whether to consider seeking legal advice. We do not feel "...the professional accountant in business shall consider obtaining legal advice" is appropriate.	GTI	
684-68	300.17	300.17: paragraph should be 300.16.	NIVRA	
685-68	300.17	Paragraph should be 300.16.	FEE	
686-68	300.17,	<p>We believe that the changes from "should" to "shall" in the following paragraphs may cause difficulties for members in business</p> <ul style="list-style-type: none"> <li>• Paragraph 300.17 – we believe that it would be appropriate to retain the word "should" instead of "shall" in this particular context.</li> </ul>	APESB	
687-68	320.2	<p>In paragraph 320.2 "should" has been changed to "shall". This now requires that a professional accountant in business <i>who has responsibility for the preparation or approval</i> of general purpose financial statements shall ensure that those financial statements are presented in accordance with applicable financial reporting standards.</p> <p>In our view it will commonly be the case that those who have responsibility for the preparation of the financial statements will be unable to <i>ensure</i> the application of the standards; for example, a CFO could be overruled by the board of directors. In such circumstances, it should be sufficient for the professional accountant to have used his best endeavours to ensure the application of the standards.</p> <p>Even where a professional accountant has responsibility for the approval of the financial statements, that approval may be shared with others; for example, where a professional accountant is one of a board of directors. In such a case, the professional accountant may be unable to ensure the application of the standards.</p> <p>We therefore believe that it would be more appropriate for this paragraph to retain the use of the word "should".</p>	ICAA/ CPA Aus/ NIA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<del>688-68</del>	320.20	<p>We believe that the changes from “should” to “shall” in the following paragraphs may cause difficulties for members in business</p> <ul style="list-style-type: none"> <li>Paragraph 320.2 – we believe that it would be appropriate to retain the word “should” instead of “shall” in this particular context on the basis that the professional accountant that prepares the general purpose financial statements may not have the ultimate authority to approve the general purpose financial statements.</li> </ul>	APESB	
<del>689-69</del>	320.6	<p>Throughout the draft Code, it is usually a <b>requirement</b> to ‘consider’ something (as it is usually used in conjunction with the word ‘shall’). However, this is often not the case where the draft Code refers to obtaining legal advice. In this paragraph, we suggest the wording be changed to state that the accountant ‘shall consider obtaining legal advice’ (as it does in paragraph 300.16).</p>	ACCA	
<del>690-69</del>	320.6	<p>In the majority of the paragraphs “considering” is an obligation, because of the use of “shall” with respect to “consider”. However, as the same paragraph requires the professional accountant not to be or remain associated with misleading information, the use of the word ‘determine’ or ‘decide’ instead of ‘consider’ might be more appropriate.</p>	CNCC	
<del>691-69</del>	320.6	<p>In the majority of the paragraphs “considering” is an obligation, because of the use of “shall” with respect to “consider”. However, as the same paragraph requires the professional accountant not to be or remain associated with misleading information, the use of the word ‘determine’ or ‘decide’ instead of ‘consider’ might be more appropriate.</p>	FEE	
<del>692-69</del>	320.6	<p>We believe that the changes from “should” to “shall” in the following paragraphs may cause difficulties for members in business</p> <ul style="list-style-type: none"> <li>Paragraph 320.2 – we believe that it would be appropriate to retain the word “should” instead of “shall” in this particular context on the basis that the professional accountant that prepares the general purpose financial statements may not have the ultimate authority to approve the general purpose financial statements.</li> </ul>	APESB	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
<del>693-69</del>	330	We believe this section should be entitled ‘Acting <b>Without</b> Sufficient Expertise’ rather than ‘Acting <b>with</b> Sufficient Expertise’.	ACCA	
<del>694-69</del>	330.1	The first sentence does not read well since the word ‘should’ has been deleted. The word ‘undertake’ may be changed to ‘undertakes’. However, we believe it is preferable, and more robust, to insert the word ‘shall’ where ‘should’ has been deleted.	ACCA	
<del>695-69</del>	330.1	Undertakes instead of undertake. Alternatively, the word “shall” could be inserted where “should” has been deleted.	FEE	
<del>696-69</del>	330.1	330.1: undertakes instead of undertake;	NIVRA	
<del>697-69</del>	330.2	This paragraph should start with the words ‘Circumstances that create a threats...’.	ACCA	
<del>698-69</del>	330.3	We believe that the factors included in the first sentence of this paragraph (“the extent to which the professional accountant in business is working with others, relative seniority in the business, and the level of supervision and review applied to the work”) may not be factors that affect the significance of the threat to professional competence and due care, but rather the application of safeguards.	CICA	
<del>699-70</del>	330.5	Paragraph should be 330.4.	FEE	
<del>700-70</del>	330.5	330.5: paragraph should be 330.4;	NIVRA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
701-70	340	<p>The section on Financial Interests does not appear to contemplate that a professional accountant may be an owner-manager. For example, in such a situation, the value of the professional accountant’s financial interest would certainly be affected directly by the accountant’s decisions and such an accountant would not normally be prohibited from using confidential information for personal gain.</p> <p>We suggest that the clarity of this section would be improved if it included a discussion of its applicability to a professional accountant who is an owner-manager. We suggest that there should be an acknowledgement that in such circumstances some of the provisions of the section may not apply.</p>	CICA	
702-70	340.3	We suggest that the phrase “or for the gain of others” be added to the end of this sentence.	CICA	
703-70	350.4	In order to add clarity, prior to points (a) to (d), this paragraph should state that the professional accountant shall ‘determine whether to take <u>one or more of</u> the following actions’.	ACCA	
704-70	350.8	We believe that this paragraph is now misleading, as the professional accountant is <b>always</b> required to follow the principles and guidance set out in Part A. There is no value in including specific situations within Parts B and C if the guidance does not state a specific impact of the conceptual framework.	ACCA	
705-70	290.158	<p><b>General comments on ‘clarity’ proposals</b> We believe that the IESBA could have gone further in terms of improving the clarity of the Code. Our observations are set out in Appendix 3. <u>Appendix 3</u> <b>General Drafting Comments</b> We offer below some suggestions that may further improve the clarity of the Code Cont’d</p>	PwC	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
706.70	290.158	<p>We recommend that any drafting conventions adopted should be published to assist readers and translators to understand the intentions behind IESBA’s drafting. For example, if adopted, the proposed distinctions between “consider”, “evaluate” and “determine” should be published (perhaps in the Preface to the Code, or in a section alongside the definitions section).</p> <p>There is some scope for simplifying the language and making it more direct. This may help with translation into other languages.</p> <p>Using the active voice in paragraph 290.158 would, for example, make the language more direct:</p> <p>“Before the firm accepts an engagement to provide a non-assurance service to an audit client <del>a determination shall be made as to</del> <u>it shall determine</u> whether providing such a service would create a threat to independence.”</p> <p>“In evaluating the significance of any threat created by a particular non-assurance service, <u>the professional accountant shall consider</u> <del>consideration shall be given to</del> any threat that the audit team has reason to believe...”.</p> <p><b>Other drafting recommendations</b></p> <p>290.158: “If a threat <del>is created that</del> cannot be reduced to an acceptable level by the application of safeguards, the non-assurance service shall not be provided.”</p> <p>290.101 “For the purpose of <del>determining</del> <u>evaluating</u> whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members shall be taken into account.”</p> <p>“Evaluate” seems more appropriate than determine because the sentence relates to factors to be taken into account, or “assessed and weighed” in the language of the explanatory memorandum.</p>	PwC	
<b>Definitions</b>				

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
707-70	Consistency with EU	Additionally a major challenge in facilitating the convergence of international and national ethical standards lies in differences in the definitions used. The IESBA has recently agreed on definitions of network firms and public interest entities which are similar to those used in EU regulations. However, differences remain, for example in the definitions of affiliates and key audit partners.	APB	
708-70	Consistency with ISAs	We are aware that all ISAs are subject to the IAASB’s Clarity Project at the moment, and that some definitions used in the ISAs might change. NIVRA is of the opinion that it is logical and desirable that the Code and ISAs use the same definitions (see our comments on question 2). Therefore we suggest to use one list of definitions for both the Code and the ISAs, an in addition to clearly reflect in the Code and ISAs those key terms which are used in respectively the Code and ISAs only.	NIVRA	
709-71	Acceptable level	The proposed new definition of “acceptable level” appears to bring an unnecessary duplication of the reasonable observer test to the requirements of proposed paragraphs 100.7 and 200.10. These paragraphs, which also contain the reasonable observer test, govern the requirements throughout the Code to reduce threats to an <i>acceptable level</i> . We would suggest that the new definition of “acceptable level” might not be required.	CICA	
710-71	Acceptable level	<p>Acceptable level A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.</p> <p>We suggest it should be modified as follows:</p> <p>Acceptable level A level <u>of threats</u> at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.</p>	CICPA	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
711.71	Acceptable level	Definition-Acceptable level Reasonable third party only and informed-- be deleted as informed word is not defined and is very vague. In Law in negligence the word reasonable is only used. Informed third party can make auditors raise issues regarding third party claims saying third party is not fully informed	RM	
712.71	Assurance team	definition of “assurance team” and the Code as a whole: please, be consistent in the use of capital letters after a colon and when categorizing;	NIVRA	
713.71	Assurance team	In relation to the definition of “assurance team” and the Code as a whole, it would be helpful to have consistency in the use of capital letters after a colon and when categorizing.	FEE	
714.71	Audit team	definition of “audit client”: to non-native speakers it is not clear why both the future tense and the present simple is used in the same definition. We understand that listed audit clients always include its related entities and that non-listed audit clients always include those related entities over which the client has direct or indirect control, so why not use the same tense twice;	NIVRA	
715.71	Audit team	In relation to the definition of “audit client”, it is not clear to non-native speakers why both the future tense and the present simple is used in the same definition. We understand that listed audit clients always include its related entities and that non-listed audit clients always include those related entities over which the client has direct or indirect control, so it is not clear why one tense cannot be used consistently	FEE	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
716.71	Firm	<p>The definition of the term “firm” contains a technical error that should be corrected. The definition of firm reads: “(a) a sole practitioner, partnership, or corporation of professional accountants; (b) an entity that controls such parties, through ownership, management, or other means; <b>and</b> (c) an entity controlled by such parties, through ownership, management or other means” (emphasis added). It is unlikely that any firm would meet this definition. The word “and” that separates paragraph (b) from paragraph (c) should be replaced with the word “or” to make the definition operable.</p> <p>In Australia, we have extended the definition of the term “firm” to include Members working in “an Auditor-General’s office or department”. The IESBA should give consideration to similarly extending the definition of the term “firm” to incorporate members in the public sector.</p>	APESB	

X Ref	Par Ref	Comment	Respondent	Proposed Resolution
717.71	Independence	<p>Independence is:</p> <p>(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism</p> <p>(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm’s, or a member of the audit team’s, integrity, objectivity or professional skepticism has been compromised.</p> <p>Since this definition is also applicable to other assurance engagements, we suggest it should be modified as follows:</p> <p>Independence is:</p> <p>(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism</p> <p>(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm’s, or a member of the audit <u>or assurance</u> team’s, integrity, objectivity or professional skepticism has been compromised.</p>	CICPA	
718.71	Independence	It is unclear why the explanation on ‘independence in appearance’ is with reference to a firm or ‘a member of the <b>audit</b> team’ rather than a firm or ‘a member of the <b>assurance</b> team’	ACCA	
719.72	Professional accountant in business	As noted in our comments on 300.3, we suggest that the clarity of this definition would be improved by the inclusion of the discussion in that paragraph.	CICA	
720.72	Related entity (b)	We believe that the word “such” after the inserted “that” should be deleted.	CICA	

<b>X Ref</b>	<b>Par Ref</b>	<b>Comment</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
721-72	Reasonable and informed third party	The Code uses for the definition of an “acceptable level” the notion of a “reasonable and informed third party”. We think that it is necessary to give a definition of what a “reasonable and informed third party” is in the field of Ethics.	Mazars	
722-72	Safeguards	We note that the Code does not define the term <i>safeguard</i> . Given the Code relies on a “threats and safeguards” approach to assessing independence; we believe that this term must be sufficiently defined in the Code. While the definition may seem obvious to some, in an international environment a common understanding can not be assumed. For example, is a safeguard anything that reduces risk, whether general or specific? Or does it only include actions taken that are specific to the risks identified on individual engagements?	IOSCO	

**Legend**

AAT	Association of Accounting Technicians
ACCA	Association of Chartered Certified Accountants
AIA	Association of International Accountants
AICPA	American Institute of Certified Public Accountants
APB	Auditing Practices Board (UK)
APESB	Accounting Professional and Ethical Standards Board – Australia
Basel	Basel Committee on Banking Supervision
BDO	BDO Global Coordination B. V.
CARB	Chartered Accountants Regulatory Board – Ireland
CCAB	The Consultative Committee of Accountancy Bodies
CEBS	Committee of European Banking Supervisors
CICA	Canadian Institute of Chartered Accountants
CICPA	Chinese Institute of Certified Public Accountants
CIMA	Chartered Institute of Management Accountants
CNCC	Compagnie Nationale des Commissaires aux Comptes
CSOEC	Conseil Supérieur de l'Ordre des Experts-Comptables
DTT	Deloitte Touche Tohmatsu
EYG	Ernst & Young Global Limited
FARS	The Institute for the Accountancy Profession in Sweden
FEE	Federation des Experts Comptables Europeens
GTI	Grant Thornton International
HKICPA	Hong Kong Institute of Chartered Accountants
ICAA/CPA Aus/ NIA	The Institute of Chartered Accountants in Australia/ CPA Australia/ National Institute of Accountants in Australia
ICAEW	The Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants of Scotland
ICPAC	The Institute of Certified Public Accountants of Cyprus
ICPAS	Institute of Public Accountants in Singapore
IOSCO	International Organisation of Securities Commissions
IDW	Institut der Wirtschaftsprüfer (Germany)
IIA	Institute of Internal Auditors
IRBA	Independent Regulatory Board for Auditors
JICPA	Japanese Institute of Certified Public Accountants
JM	Joseph Maresca
KICPA	Korean Institute of Certified Public Accountants
KPMG	KPMG
LSCA	London Society of Chartered Accountants
NASBA	National Association of State Boards of Accountancy
Mazars	Mazars

MIA	Malaysian Institute of Accountants
MS	Mark Shum
NIVRA	Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)
PwC	PricewaterhouseCoopers
RM	Ramachandran Mahadevan
RSM	RSM International
SAICA	South African Institute of Chartered Accountants
VSCPA	Virginia Society of Certified Public Accountants
Wpk	Wirtschaftsprüferkammer