

**Improving the Structure of the IESBA Code—Issues Paper****How the Project Serves the Public Interest**

The project serves the public interest by improving the clarity and usability of the Code. Restructuring the Code will enhance understanding, thereby facilitating adoption, effective implementation, consistent application and enforcement.

**A. Background**

1. In early November 2014, the Board issued the Consultation Paper [\*Improving the Structure of the Code of Ethics for Professional Accountants\*](#). During development of the Consultation Paper, the Task Force identified a number of matters on which it is now seeking the views of the Board. The Task Force recognizes that while it has been giving further thought to how the approach set out in the Consultation Paper could be refined, the course of the restructuring project as a whole will need to take into account feedback from the public consultation.
2. At the October 2014 Board meeting, the Task Force indicated that it would be considering further refinements to the approach to restructuring the Code in preparation for the anticipated October 2015 Exposure Draft. In addition, to inform the discussion in this regard, a general question was asked in the consultation paper about possible rebranding of the Code. These topics are explored further in this paper.

*Characteristics of the Restructured Code*

3. The restructured code as illustrated in the consultation paper is characterized by each section:
  - Remaining principles-based by maintaining the linkage with the conceptual framework approach;
  - Explaining its purpose;
  - Clearly setting out its requirements;
  - Explaining its application;
  - Being more self-contained than before;
  - Being easy to use with improved navigability and increased clarity.

**B. Rebranding**

4. Rebranding all or part of the restructured Code as “international standards” has been suggested by various stakeholders. In its paper [\*Structure of the Code – Report and Recommendations\*](#) presented to the Board in April 2014, the Structure of the Code Working Group raised the matter of branding the independence sections with a term such as International Standards on Independence (with appropriate material from the current Part A and Section 200 referenced). The Task Force recognizes that the Board and stakeholders may have different perspectives regarding potential rebranding of the Code as standards. Accordingly, the Consultation Paper seeks broader feedback from stakeholders on this matter.

5. In anticipation of that feedback, the Task Force invites the Board to have an open discussion and further advance its thinking in this regard. The Task Force hopes to then be better informed to respond to the Consultation Paper feedback, in anticipation of a decision being made at the April 2015 meeting of the Board.
6. In this section, we look first at various characteristics of codes and standards, and then highlight some merits of codes and standards that may warrant Board consideration as it explores the topic of rebranding the Code.

#### *Characteristics and Merits of Codes and Standards*

7. Both codes and standards have similarities insofar as they are designed to achieve specific forms of behavior by those who are subject to them. Definitions of the word “code” tend to refer to conventions and principles regarding behavior. Historically, ethics codes have tended to provide guidance about values and choices to influence behavior and decision-making. Definitions of the word “standard” tend to refer to established or authoritative “norms”, “requirements” and “measurements” with a more technical perspective that asserts that some actions are appropriate or inappropriate. In both cases, the issuing body identifies a narrow range of behaviors that are acceptable. There is overlap between the characteristics of code and standards.
8. The Code incorporates both principles, with its fundamental principles and conceptual framework, and specific requirements, distinguished by the use of the word “shall,” that have been established to apply the conceptual framework to certain specific matters. Many of these specific requirements are found within the independence sections of the Code. As a result, the current Code displays characteristics of a code and, particularly in the independence sections, characteristics of standards.
9. The restructured Code has been drafted, subject to further input from the Board and Consultation Paper respondents, so that it could continue to be described as code or might be rebranded, in whole or in part, as standards.
10. Rebranding the Code as standards may help to align the Board with how other international boards brand their products. The Task Force notes that the Board is an international standard-setting board and that the word “Standards” is in its name. Other such boards issue pronouncements that they brand as standards. For example, the International Auditing and Assurance Standards Board (IAASB) issues *International Standards on Auditing* (ISAs) and the International Accounting Standards Board (IASB) issues *International Financial Reporting Standards* (IFRSs).
11. Some stakeholders have suggested rebranding parts of the code as standards, for example the independence provisions, which may be more naturally viewed as standards. There is a risk, however, that rebranding only parts of the Code as standards may create perceived differences in the application and enforceability of the material treated as code relative to material rebranded as standards, and downplay the importance of a principles-based approach using the conceptual framework.
12. The Task Force believes that its proposed restructuring mitigates the risk that rebranding the Code as standards may cause users to apply a more rules-based approach, reducing the emphasis on the fundamental principles and the application of the conceptual framework.

13. Both codes and standards have their own individual advantages which the Task Force has discussed. In order to facilitate an open Board discussion, the Task Force has not finalized its position in this paper.

**Matter for Consideration**

1. The Board is asked for views on the merits of rebranding the Code, or a part thereof, as “international standards.”

**C. Definitions**

14. The Task Force has identified a number of differences between definitions in the ISAs and corresponding ones in the Code and considered that these differences could be confusing for users. The Board agreed that the Task Force should review the differences and make a judgment whether alignment would enhance clarity. The Board asked the Task Force to present its recommendations regarding those differences it believes should be changed. The definitions and the Task Force’s consideration of them are set out in the Appendix.
15. The Task Force recommends aligning certain definitions in the independence sections with definitions in the ISAs, except where the Task Force feels this would not be appropriate. The review identified seven differences in definitions between the Code and the IAASB Glossary of Terms. The review is limited to terms in the Definitions section of the Code and the IAASB Glossary of Terms.
16. As indicated in the Appendix, the Task Force recommends full or partial alignment of definitions of the following terms:
- Assurance engagement (partial)
  - Engagement quality control review (partial)
  - Financial statements
  - Special purpose financial statements

**Matters for Consideration**

2. Does the Board agree with the Task Force’s recommendations?
3. If so, should the alignment be made in the exposure draft?

**D. Other Matters**

*Renumbering and Reordering*

17. In previous meetings, some Board members have suggested improvements to the numbering conventions and less repetition of the proposed paragraphs outlining “terms used” and “purpose.” In response to these comments, the Task Force has been further developing the approach to numbering conventions and working on some elimination of the repetition of “terms used” and “purpose.” This would allow streamlining of the numbering convention and grouping of certain portions of the Code together to reduce repetition. The Task Force is also considering moving the material dealing with Non-Assurance Services in the independence section to the end of proposed Part IV (Independence for Audit and Review Engagements) to allow for future growth.

### *Drafting Conventions*

18. Tentative drafting conventions were first considered at the Board's April 2014 Meeting. Since that meeting, the Task Force has reviewed the drafting conventions in liaison with IAASB Staff who developed more detailed drafting guidelines during the IAASB's project to clarify the ISAs, among other standards, through redrafting (the Clarity Project). As a result, the tentative drafting conventions have been reworked and renamed as general redrafting guidelines. As requested by the Board in July 2014, these redrafting guidelines have been circulated to staff members for use when drafting sections of Code. They are included as Agenda Item 3-B. As the Task Force's work proceeds, these guidelines will continue to evolve and be shared with the other Task Forces.

### *Plain English Editor*

19. In April 2014, the Working Group's Report and Recommendations to the Board included a recommendation for the use of an editor who is knowledgeable but detached from the project. The search for an editor has commenced and the Task Force anticipates that the editor will be in place in early 2015.

### *Electronic Code*

20. As recommended at the April 2014 Board meeting, a preliminary version of an electronic code has been developed based on the text of the extant Code. This was launched in early December 2014. It includes the following features:
- HTML text and search.
  - Hyperlinks between defined terms and their definitions.
  - Improved navigation between sections of the Code to help users find the sections relevant to their needs.
21. The Task Force is continuing work on the electronic Code in conjunction with its work on the exposure draft with the intention that the electronic Code will be further enhanced when the revised Code is finalized. New features that the Task Force will be seeking to include in the electronic Code will include an enhanced search capability so that users can, for example, undertake queries on particular topics.

#### **Matter for Consideration**

4. Does the Board have any comments on any of these other matters?

## Appendix

### Definitions

	IESBA Definition	IAASB Definition	Task Force recommendation
<b>Firm</b>	<p>(a) A sole practitioner, partnership or corporation of professional accountants;</p> <p>(b) An entity that controls such parties, through ownership, management or other means; and</p> <p>(c) An entity controlled by such parties, through ownership, management or other means.</p>	<p>A sole practitioner, partnership or corporation or other entity of professional accountants.</p> <p><b>NB</b> (ISQC 1 references the IESBA definition of firm and users are instructed to apply the IESBA definition in complying with relevant ethical requirements in ISQC1).</p>	<p>This definition is an IFAC-wide matter. The IESBA would need to consult with the other standard-setting boards supported by IFAC. Therefore, the review of this definition is outside the scope of this project.</p>
<b>Independence</b>	<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</p>	<p>Comprises:</p> <p>(a) Independence of mind—the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, 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</p>	<p>A review of this definition is outside the scope of this project but may be an issue for the IESBA to consider in future.</p>

	IESBA Definition	IAASB Definition	Task Force recommendation
	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 or assurance team's, integrity, objectivity or professional skepticism has been compromised.	a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.	
<b>Assurance engagement</b>	An engagement in which a professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.	An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. <i>The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria (also see Subject matter information). Under the International Framework for Assurance Engagements there are two types of assurance engagement a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement.</i>	Align the definition with IAASB's except for the second part of the IAASB definition (italicized).

	<b>IESBA Definition</b>	<b>IAASB Definition</b>	<b>Task Force recommendation</b>
<b>Engagement quality control review</b>	A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments the engagement team made and the conclusions it reached in formulating the report.	A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial statements of listed entities and those other engagements, if any, for which the firm has determined an engagement quality control review is required.	Align the definition with IAASB's, first sentence only.
<b>Financial statements</b>	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial	Align the definition with IAASB's.

	<b>IESBA Definition</b>	<b>IAASB Definition</b>	<b>Task Force recommendation</b>
	explanatory notes.	reporting framework, but it can also refer to a single financial statement.	
<b>Special purpose financial statements</b>	Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users	Financial statements prepared in accordance with a special purpose framework.  <i>(Special purpose framework—A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework).</i>	Align the definition with IAASB's.
<b>Review engagement</b>	An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.	The objective of a review engagement is to enable an auditor to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.	Do not align the definition with IAASB's.  The IESBA definition allows for standards that are different from but equivalent to international standards.