

Meeting: IESBA

Meeting Location: New York

Meeting Date: June 29 – July 1, 2015

Agenda Item 2

Structure of the Code

Objectives of Agenda Item

1. To consider:
 - (a) Issues and Task Force proposals;
 - (b) A first-read draft of selected sections of the restructured Code (first tranche); and
 - (c) The drafting guidelines.

Task Force

2. Members:
 - Don Thomson, Chair, IESBA Member
 - Tony Bromell, IESBA Technical Advisor
 - Brian Caswell, IESBA Member
 - Peter Hughes, IESBA Member
 - Stefano Marchese, IESBA Member

Activities Since Last IESBA Discussion

3. An update on the project was presented to:
 - (a) The Forum of Firms in April 2015;
 - (b) National standard setters (NSS) in May 2015; and
 - (c) The IFAC SMP Committee (SMPC) in June 2015.
4. The plain English editor reviewed the text of the first tranche of the draft restructured Code in May 2015.
5. The Task Force met in person in May 2015 and via teleconference in June 2015 to review the edited draft restructured Code and to prepare the papers for this meeting. The Task Force adopted the editorial suggestions from the plain English editor that it believed enhanced the draft restructured Code and made suitable adjustments to the drafting guidelines.

Input from Stakeholders

6. Since the April 2015 Board meeting, there have been a number of engagements with stakeholders which are noted below. The additional input received is consistent with the Consultation Paper (CP) responses which the Board discussed in April.

SMPC

7. In its comment letter on the April 2015 Board papers, the SMPC indicated significant support for the project. However, it did not agree with the proposed labelling and title for the restructured Code. The SMPC is of the view that rebranding the Code would be contradictory to the basis of the Code as a conceptual framework. It felt that as a measure alone, rebranding would not change ethical behavior. The SMPC believes that the proposed title could detract from the principles-based nature of the Code and that there is a risk that it will be seen as a move to a more rules-based approach. It also expressed the view that the Board should give further consideration to the separation of requirements applicable to public interest entities from those applicable to other entities. The Task Force will take these comments into account in its future consideration of these matters.

Forum of Firms

8. The Forum of Firms met in April 2015. There was a perception that the project timetable is “aggressive.” Comments included that: the implementation dates may not allow sufficient time for firms to map the structural changes across entire networks or translate the Code within the proposed implementation deadline; there was a burden in dealing with multiple exposure drafts (EDs); and the Board should guard against (a) changes in meaning, and (b) addressing issues that are outside the scope of the project.

NSS

9. The IESBA-NSS liaison group met in May 2015. In contrast to the perception noted at the Forum of Firms meeting, there was a perception at the IESBA-NSS meeting that the project timeline is unduly long. There was a concern about the challenge of rewriting the Code without changing its meaning. There was also an acknowledgement of the positive impact of more clearly distinguishing requirements from guidance from an enforcement perspective.

Material Presented

Agenda Item 2-A	Structure of the Code – Issues and Task Force Proposals
Agenda Item 2-B	Draft Restructured Code – Part A
Agenda Item 2-C	Mapping Table – Part A
Agenda Item 2-D	Draft Restructured Code – Part C
Agenda Item 2-E	Mapping Table – Part C
Agenda Item 2-F	Draft Restructured Code – Part C1

Agenda Item 2-G	Mapping Table – Part C1
Agenda Item 2-H	Table of Concordance for Parts A, C and C1
Agenda Item 2-I	Drafting Guidelines
Supplement A	Compilation of Responses to the CP – general comments (for information only)
Supplement B	Compilation of Responses to the CP – by question (for information only)

Forward Timeline

10. To meet stakeholder expectations, the Task Force is working towards a target of December 2015 for the approval of an ED of the majority of the parts of the restructured Code. IESBA staff and the Chairs of the Structure and Safeguards Task Force are maintaining a close liaison relative to the aim of seeking Board approval of the Structure and Safeguards EDs by the end of 2015. The dates in the table below are tentative, subject to feedback on the proposals and the continued availability of sufficient resources.
11. IESBA staff and Structure Task Force Chair are continuing to liaise with the IAASB's ISQC 1 Working Group staff and Chair concerning the review and clarification of the matter of responsibility for compliance with the Code within a firm.
12. The Task Force and the Planning Committee are mindful of the need for appropriate alignment of the timing of issuance of the Structure ED in relation to the timing of other projects currently in progress. The proposed timing of the sections to be exposed has been slightly adjusted to take account of the expected approval dates for various sections of the Code which are currently under revision or development: NOCLAR; Long Association; and extant Part C Phase I. Subject to how much progress may be achieved in the available time this year, the Task Force may suggest that the release of restructured Part C 2 (Independence – Other Assurance Engagements) be deferred until Q2 2016. The Task Force would then seek to have all these sections approved by the Board as a second ED in Q2 2016.¹
13. The Task Force is continuing to reflect on the required functionality for phase II of the electronic Code whilst developing the restructured Code. It has been considering possible filtering options and enhancements to the navigability of the current electronic Code. The Task Force anticipates that if the restructured Code is issued by the end of 2017, then phase II of the electronic Code will be launched during 2018.

Indicative Timing	Milestone
September 2015	CAG Meeting <ul style="list-style-type: none">• Consideration of significant issues regarding draft ED

¹ Changes arising from Phase II of the Part C project are expected to be drafted under the new structure and drafting conventions, and issued as a separate ED later in 2016.

Indicative Timing	Milestone
September 2015	IESBA Meeting <ul style="list-style-type: none"> Consideration of draft ED 1, tranches I and II
October 2015	Forum of Firms meeting <ul style="list-style-type: none"> Discussion of ED 1 tranches I and II
December 2015	IESBA Meeting <ul style="list-style-type: none"> Approve ED 1 tranches I and II
June 2016	IESBA Meeting <ul style="list-style-type: none"> Approve ED 2
Early 2017	Finalize and issue a restructured Code, possibly effective January 1, 2018 (seven years after the effective date of the last major revision)
2018	Launch Electronic Code phase II

Action Requested

14. IESBA members are asked for views on:

- (a) The matters raised in Agenda Item 2-A;
- (b) The draft restructured Code in Parts A, C and C1 as set out in Agenda Items 2-B, 2-D and 2-F.
- (c) The drafting guidelines.

Appendix 1

Structure of the Code – Packaging of Exposure Drafts

Exposure Draft 1, Tranche I (Expected at IESBA Meeting June/July 2015)	Exposure Draft 1 Tranche II (Expected at IESBA Meeting September 2015)	Exposure Draft 2 (Expected Q2 2016)
<p>Preface</p> <p>How to use the Code</p> <p>Part A – Sections 100 -110</p> <p>100 Compliance with the Code, Fundamental Principles and Conceptual Framework</p> <p>110 Fundamental Principles and Conceptual Framework</p> <p>111 Integrity</p> <p>112 Objectivity</p> <p>113 Professional Competence and Due Care</p> <p>114 Confidentiality</p> <p>115 Professional Behavior</p> <p>Part C – Section 300 – 350</p> <p>300 Application of the Conceptual Framework for Professional Accountants in Public Practice</p>	<p>Exposure Draft Tranche I plus:</p> <p>120 Conceptual Framework</p> <p>300 Application of the Conceptual Framework for Professional Accountants in Public Practice</p> <p>522 Family and Personal Relationships</p> <p>523 Employment with an Audit Client</p> <p>524 Temporary Staff Assignments</p> <p>525 Recent Service with an Audit Client</p> <p>526 Serving as an Officer or Director of an Audit Client</p> <p>600 Independence: Non Assurance Services</p> <p>601 Management Responsibility</p> <p>602 Preparing Accounting Records and Financial Statements</p> <p>603 Valuation Services</p>	<p>Part B – Professional Accountants in Business. (Extant Part C Phase I).²</p> <p>NOCLAR Section numbers TBD</p> <p>530 Long Association of Personnel with an Audit Client</p> <p>Part C 2 – Independence – Other Assurance Engagements</p>

² Extant Part C Phase II expected to be drafted under the new structure and drafting conventions

Structure of the Code (Cover Note)
IESBA Meeting (June/July 2015)

Exposure Draft 1, Tranche I (Expected at IESBA Meeting June/July 2015)	Exposure Draft 1 Tranche II (Expected at IESBA Meeting September 2015)	Exposure Draft 2 (Expected Q2 2016)
310 Conflicts of interest 320 Professional appointment 330 Fees and remuneration 340 Gifts and hospitality 350 Custody of client assets Part C1 Sections 400-526 400 Independence – Audit & review engagements General Principles and Responsibilities 401 Breach of an Independence Provision 410 Fees and Compensation 411 Fees – Relative Size 412 Fees – Overdue 413 Contingent Fees 414 Compensation 420 Gifts and Hospitality 430 Actual or Threatened Litigation 500 Independence: Relationships 510 Financial Relationships 511 Financial Interests 512 Loans and Guarantees	604 Taxation Services 605 Internal Audit Services 606 IT Systems Services 607 Litigation Support Services 608 Legal Services 609 Recruiting Services 610 Corporate Finance Services 700 Independence: Other Assurance Engagements. (Numbers to be determined).	

Structure of the Code (Cover Note)
IESBA Meeting (June/July 2015)

Exposure Draft 1, Tranche I (Expected at IESBA Meeting June/July 2015)	Exposure Draft 1 Tranche II (Expected at IESBA Meeting September 2015)	Exposure Draft 2 (Expected Q2 2016)
520 Other Relationships 521 Business Relationships		