

Structure Phase 1 Exposure Draft (ED-1) – Summary of Comments, Issues and Preliminary Task Force Proposals

How the Project Serves the Public Interest

Through the development of a restructured Code, the project serves the public interest by:

- Enhancing understandability of the Code, thereby facilitating compliance and enforcement; and
- Improving the usability of the Code, thereby facilitating adoption, effective implementation and consistent application.

How this Paper is Organized

This paper addresses the following topics:

I: Input from Respondents to ED-1 – Relating to Structure

- A. Overview of responses
- B. Highlights of Matters Raised by Respondents
 - The Fundamental Principles, Conceptual Framework and Independence Standards
 - Increasing the Prominence of the Fundamental Principles
 - Increasing the Prominence of the Independence Requirements
 - Clarifying the Linkage between Independence and the Fundamental Principles
 - Clarifying the Application of the Conceptual Framework to Independence
 - Clarifying the Interaction between the Conceptual Framework and Specific Requirements and Application Material
 - Exceptions to Requirements
 - Exceptional Circumstances
 - Disproportionate Outcomes
 - Ethical Conflict Resolution
 - Clarity of Responsibility for Compliance with the Code
 - Clarity and Appropriateness of the Term “Audit” including “Review”
 - Clarity and Appropriateness of the Distinction of Firms from Network Firms
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 - Non-authoritative Guidance, including the Guide to the Code (the Guide)
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II:	Input from Respondents to ED-1 - Relating to Wording
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III:	Next steps
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I: Input from Respondents to ED-1 – Relating to Structure

A. Overview of Responses

- The comment period for matters raised in ED-1 closed on April 18, 2016. Comment letters have been received from 50 respondents and are available for review on the Board's [website](#). A listing of respondents is provided in Appendix 1.
- The table below provides an overview of the constituencies from which responses have been received. The remainder of the overview presents a general picture of the responses to the specific questions in ED-1.

Category	Number of responses received
Regulators and Oversight Authorities	6
National Standards Setters	2
Firms	10
Public Sector Organizations	1
Preparers	1
IFAC Member Bodies and Other Professional Organizations	29
Individual and Other	1
Total	50

- Respondents expressed widespread support for the key features of the restructuring, including the principles basis, requirements distinguished from application material, enhanced clarity and overall usability. Stakeholders appreciated that the improved understandability of the proposed restructured Code will facilitate compliance and enforcement. Responses to questions about Small and Medium Practices (SMPs), developing nations, translation and adoption reflected similar views.
- While expressing support for ED-1, a number of respondents requested the opportunity to have the complete proposed restructured Code available when reviewing Structure ED-2. (ED-2) This issue, which impacts the timing of the issuance of ED-2, is discussed further in paragraph 62 of this paper.

Approach to Task Force Analysis

5. The Task Force has considered all input received, including input received from the IESBA Consultative Advisory Group (the IESBA CAG) and the Board in March 2016, and has developed preliminary proposals for further improvements to the restructured Code. Respondents' comments included a rich variety of helpful suggestions.
6. Certain structural issues have been highlighted for discussion at the Board's June 2016 meeting. Suggested changes to avoid possible changes in meaning, and other wording suggestions, will be presented for discussion at the Board's September 2016 meeting. In addition to reflecting on Board input, the Task Force will continue to reflect on the input received from respondents, particularly input received after the due date and after the Task Force's in-person meeting.
7. The task forces working on restructuring and developing text¹ have used the drafting guidelines to prepare proposals that were presented at the March 2016 IESBA meeting, and for the June 2016 IESBA papers. Taking into account respondents' comments and board input, the Task Force will provide updated drafting guidelines to the other task forces following the June 2016 meeting. The Task Force will continue to work with the other task forces to develop a restructured Code that reflects a consistent approach designed to achieve the objectives of the Structure project.

B. Highlights of Matters Raised by Respondents

The Fundamental Principles, Conceptual Framework and Independence Standards

8. There was widespread² support from respondents for the principles basis of the Code supported by the conceptual framework and specific requirements. The specific drafting suggestions made by respondents indicated certain themes, namely that:
 - The overarching requirement to comply with the fundamental principles be given even greater prominence.³
 - The overarching requirement to be independent when subject to the independence standards be given greater prominence.⁴
 - The statement in paragraph 400.1 that independence is a measure of objectivity⁵ is not a good description of the connection between independence and the fundamental principles – the linkage is better-described in the extant definition of independence. (The IESBA and the IESBA CAG expressed similar views at their March 2016 meetings.)

¹ The relevant Task Forces are Long Association, Part C, Non-compliance with Laws and Regulations (NOCLAR) and Safeguards.

² **Regulator and Oversight Authorities** PAAB SCM National Standard Setter APESB **Firms** BDO CHI GTIL KPMG RSM **Public Sector Organization** GAO **Preparer** VRC **IFAC MBs** ACCA AICPA CAANZ CIMA CPA Canada FAR ICAB ICAG ICAS ICAEW ISCA JICPA KICPA MIA NCPAA ROC OECFM SAICA WPK **Other Prof Orgs** AIA FEE **Individual and Other** DSF Juvenal

³ **Regulators and Oversight Authorities** IRBA UK FRC **National Standard Setters** APESB NZAuASB **Firm** RSM **IFAC MBs** CAANZ CPA Canada FSR IDW **Other Prof Orgs** FEE IFAC SMPC (IFAC)

⁴ **Regulator and Public Authority** IOSCO

⁵ **Regulator and Public Authority** IRBA **Firm** EYG **IFAC MBs** Assirevi ICAEW IDW WPK

- The application of the conceptual framework to the independence standards be clarified.⁶
- The interaction between the conceptual framework and specific requirements and application material be clarified – the focus on the principles basis of the Code should not be lost when setting out specific requirements and application material.⁷
- With appropriate positioning of requirements, that unnecessary repetition be avoided – for example, the banner heading reminder to apply the conceptual framework is redundant and should be removed.⁸

Preliminary Task Force Proposals

Increasing the prominence of the fundamental principles

9. The Task Force proposes, together with clear communication in Part A of the proposed restructured Code of the requirement to comply with the fundamental principles, revised introductory material in each section throughout the Code reminding users of the requirement to comply with the fundamental principles – the reminders to apply the conceptual framework remain, but the focus will include the overall objective and not simply the process for achieving the objective. With this change, the Task Force no longer considers it necessary to repeat in each section the banner heading reminding users of the requirement to apply the conceptual framework.
10. The Task Force will reflect further on ED-1's proposed repetition in each section of a requirement that the conceptual framework be applied.

Increasing the prominence of the independence requirements

11. The Task Force also proposes, together with clear communication in Section 400 of the requirement to be independent, revised introductory material in each independence section throughout the Code reminding users of the requirement to be independent – the reminder to apply the conceptual framework remains.

Clarifying the linkage between independence and the fundamental principles

12. The Task Force proposes deleting the statement in paragraph 400.1 that "Independence is a measure of objectivity".
13. The Task Force proposes removing the discussion of independence from paragraphs 112.3A1 and A2 in the subsection dealing with objectivity.
14. The Task Force proposes revising Section 120, "The Conceptual Framework," to repeat the definition of independence from paragraph 400.2 to create a clearer linkage between the fundamental principles and independence when addressing the application of the conceptual framework. This also provides a platform for mention of professional skepticism in Part A of the proposed restructured Code. In deciding on this proposal, the Task Force considered how the link between independence and the fundamental principles is described in other Codes. The Task Force also considered the risk

⁶ **Regulator and Oversight Authority** IOSCO **National Standard Setters** APESB NZAuASB **IFAC MB** CPA Australia **Other Prof Org** FEE

⁷ **Regulators and Oversight Authorities** IOSCO IRBA National Standard Setters APESB NZAuASB **Firms** PWC PKF **IFAC MBs** CPA Canada NBA **Other Prof Org** IFAC SMPC (IFAC)

⁸ **Regulator and Public Authority** IRBA **National Standard Setters** APESB NZAuASB **Firms** EYG DTTL PWC **IFAC MBs** ACCA CPA Australia **Other Prof Org** IFAC SMPC (IFAC)

of an inadvertent change in meaning if the linkage reflected in the Code's definition of independence is paraphrased.

Clarifying the application of the conceptual framework to independence

15. The Task Force proposes revising Section 120, "The Conceptual Framework," to establish a requirement that a professional accountant apply the conceptual framework to threats to compliance with independence standards as well as threats to compliance with the fundamental principles when performing an engagement requiring independence. This would allow paragraph 400.9, which currently establishes a requirement to be independent and a requirement to apply the conceptual framework, to focus on the independence requirement, giving it additional prominence as suggested by a respondent.⁹

Clarifying the interaction between the conceptual framework and specific requirements and application material

16. The Task Force proposes that the introductory language mentioned above clarify that compliance with the fundamental principles, maintaining independence when required to be independent, and application of the conceptual framework are overarching requirements. Specific requirements and application material support compliance with the fundamental principles and, in the independence sections, the requirement to be independent. Section 100 already includes a requirement to comply with the Code. The Task Force will consider whether to propose any further clarification in the restructured Code or in the Guide to make it clear that the professional accountant is required to comply with the fundamental principles, maintain independence when required, and comply with applicable specific requirements.
17. The Task Force proposes a roadmap from Section 120 to other areas in the Code that provide additional requirements and application material relevant to the application of the conceptual framework.

Matter for IESBA Consideration

1. Do IESBA members agree with the Task Force proposals and/or have any specific suggestions?

Exceptions to Requirements

18. A few respondents¹⁰ also commented on the presentation of permitted exceptions to a requirement, suggesting that exceptions be included in or adjacent to the relevant requirement.
19. Concern was expressed at the March 2016 Board meeting that some requirements used words such as "may" instead of a "shall" statement. An example of the use of "may" is:

"R510.5 A direct financial interest or a material indirect financial interest in the audit client shall not be held by:

...

⁹ **Regulator and Public Authority** IOSCO

¹⁰ **Firm** PWC IFAC MB AICPA

- (c) Any other partner in the office in which an engagement partner practices in connection with the audit engagement, or any of that other partner's immediate family;
- (d) Any other partner or managerial employee who provides non-audit services to the audit client, except for any whose involvement is minimal, or any of that individual's immediate family.

510.5 A1 ...

R510.6 As an exception to paragraph R510.5, an immediate family member identified in subparagraphs 510.5(c) or (d) **may** *[emphasis added]* hold a direct or material indirect financial interest in an audit client, provided that:

- (a) The family member received the financial interest because of employment rights (for example, through pension or share option plans);
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option; and
- (c) When necessary, the firm applies safeguards to eliminate any threat to independence or reduce it to an acceptable level.”

Preliminary Task Force Proposals

20. The Task Force proposes that exceptions be located as close to the related requirements as possible, with only necessary application material in between. The Task Force concluded that when conveying permission it is reasonable to use the term “may.”

Matter for IESBA Consideration

2. Do IESBA members agree with the Task Force proposals and/or have any specific suggestions?

Exceptional Circumstances

21. Several respondents¹¹ recommended that some or all of the material included in the proposed Guide under the heading “exceptional circumstances” be restored to Part A of the proposed restructured Code. Two topics were included under this heading, “disproportionate outcomes,” and “ethical conflict resolution” as set out below.

Disproportionate Outcomes

22. Paragraph 10 of the Guide in ED-1 states:

10. *A professional accountant might encounter circumstances in which the result of applying a specific requirement of the Code would be disproportionate or not be in the public interest.*

¹¹ Regulators and Oversight Authorities IRBA NASBA National Standard Setter APESB Firms KPMG PKF PWC IFAC MBs CPA AUS ICAEW IDW Other Prof Org SMPC (IFAC)

In those circumstances, the accountant is encouraged to consult with a professional body or a regulator.

23. A respondent¹² commented that paragraphs 10 and 12 of ED-1, read together, implied that the accountant could decide not to apply specific provisions of the Code on the basis that compliance would be disproportionate to the public interest under paragraph 10. This respondent further commented that the relevant paragraph in the extant Code¹³ does not appear to allow the accountant to make a decision not to apply any of the specific provisions. The Task Force believes that the material concerning disproportionate outcomes does not allow a professional accountant to override specific requirements; it merely encourages a professional accountant to consult with a professional body or a regulator.

Ethical Conflict Resolution

24. Some respondents¹⁴ commented that the material concerning ethical conflict resolution,¹⁵ which had also been relocated to the Guide, should be moved back to the Code. These respondents considered it to be important application material. A respondent¹⁶ expressed the view that the purpose of the Guide is to assist professional accountants to navigate the Code and that it should not contain the Code's application material – application material in the Guide would not have the same authority as application material in the Code. Additionally, this respondent commented that the removal of the factors to consider when resolving ethical conflicts is inappropriate because they assist professional accountants to identify, evaluate and respond to threats to compliance with the fundamental principles.
25. However, although stakeholders believed that the material was important they had different views on its scope. A few¹⁷ respondents commented that the ethical conflict resolution paragraphs included in the Guide changed the meaning from the extant Code, and expressed the view that the discussion in the extant Code only related to the section of the Code on conflicts of interest. The Task Force does not believe that the extant Code's discussion of this topic is restricted to conflicts of interest but it will reflect further on the interpretations expressed.

Preliminary Task Force Proposal

26. The Task Force's preliminary proposal is that the material on disproportionate outcomes and the material on ethical conflict resolution be returned to Part A of the proposed restructured Code. The Task Force will be mindful of concerns about possible changes in meaning.

Matter for IESBA Consideration

3. Do IESBA members agree with the Task Force proposals and or have any specific suggestions?

¹² **Regulator and Oversight Authority** IOSCO

¹³ *Part A—General Application of the Code* Paragraph 100.11.

¹⁴ **Regulator and Oversight Authority** IRBA **National Standard Setter** APESB **Firm** PWC **IFAC MBs** ICAEW SAICA

¹⁵ Paragraphs 100.19 to 100.24 of the extant Code

¹⁶ **National Standard Setter** APESB

¹⁷ **Regulator and Public Authority** IOSCO **Firm** DTTL

Clarity of Responsibility for Compliance with the Code

27. Some respondents supported the reduced use of the passive voice¹⁸ and generally agreed with further consideration of clarity of responsibility being referred to the International Auditing and Assurance Standards Board's (IAASB's) ISQC 1¹⁹ Working Group, which is progressing its work on the issue of responsibility with regard to ISQC 1. A respondent²⁰ commented that, for audit firms, the senior management of the firm should have the overarching responsibility to ensure an appropriate ethical mindset and culture. A respondent²¹ commented that responsibility between the firm and a specific individual in the firm as explained in ISQC 1 should be incorporated into the Code and not simply covered by the reference to ISQC 1. These comments were on the basis that where possible, all ethical requirements or considerations should be incorporated into the Code, rather than in IAASB pronouncements. Other respondents,²² consistent with respondents to the Consultation Paper, favored a cross reference.
28. Many respondents²³ supported or accepted the proposed restructured Code's use of the word "firm" for ease of reference. A respondent²⁴ commented that the Code provides in many places that "the firm" takes appropriate action and that in many circumstances the responsibility will rest, in the case of independence, with an audit team. A respondent²⁵ noted that there is an increased clarity in respect of a professional accountant's or firm's responsibility.
29. Some respondents²⁶ did not support the approach to always refer to "firm" in C1. A respondent²⁷ considered that this matter seemed to exclude personal responsibility or accountability for compliance with some requirements of the Code. A respondent²⁸ considered that although firms and professional accountants each have responsibilities to comply with independence requirements, the Code should stick to the principle that it addresses responsibilities for professional accountants in general (that includes firms in the definition) and therefore should not include any specific requirements addressed to firms or network firms. This respondent noted that the IESBA should avoid introducing any additional complexity in terms of requirements or guidance applicable to firms and consider the impact on SMPs and sole practitioners. This is to ensure that the overall framework of

¹⁸ **National Standard Setter** NZAuASB **IFAC MBs** ACCA FAR ICAS **Other Prof Orgs** AIA FEE SMPC (IFAC)

¹⁹ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

²⁰ **Regulator and Oversight Authority** UK FRC

²¹ **Regulator and Oversight Authority** IRBA

²² **Regulator and Oversight Authority** PAAB **National Standard Setter** APESB **Firms** BDO DTTL EYG GTIL PWC RSM **Public Sector Organization** GAO **Preparer** VRC **IFAC MBs** ACCA AICPA FAR CPA Australia FSR ICAB ICAG ICAEW IPA MIA NFCPAA ROC OECFM WPK **Other Prof Orgs** FEE SMPC (IFAC)

²³ **Regulator and Oversight Authority** PAAB **National Standard Setter** APESB **Firms** BDO EY GTIL PKF PWC RSM **IFAC MBs** ACCA AICPA CPA Australia ICAB ICAEW ICAG ISCA JICPA KICPA MIA FAR FSR NFCPAA ROC OECFM VRC **Other Prof Orgs** AIA SMPC (IFAC)

²⁴ **Firm** PWC

²⁵ **National Standard Setter** APESB

²⁶ **National Standard Setter** NZAuASB **Firm** DTTL **IFAC MB** CPA Canada **Other Prof Org** FEE

²⁷ **Firm** DTTL

²⁸ **Other Prof Org** FEE

the Code, ISQC 1, and the ISAs remains clear, understandable, and suitable for global application by individual professional accountants and firms of all sizes.

30. A few respondents²⁹ expressed the view that ED-1 did not use consistent terminology to clarify responsibility. One of these respondents commented that the term “professional accountant” is defined to include “firm” for the purposes of Part C. However, the term “firm” is also used throughout Part C. In some cases, the terms are used in close proximity; for instance, both terms are used in Section 310 Conflict of Interest. R310.7 refers to a “professional accountant”, whereas R310.9 refers to “firm.”³⁰

Preliminary Task Force Proposals

31. The Task Force proposes that the explanation of use of the term “firm,” presented in paragraph 400.7 in ED-1, be retained and moved closer to the beginning of Section 400 to raise its profile. The Task Force has reflected on terminology that retains professional accountants’ responsibilities while recognizing that specific assignment of responsibilities will be impacted by firms’ policies and procedures. It remains of the view that, as explained in paragraph 400.7, it is reasonable to use the term “firm” for ease of reference. The Task Force proposes that, for greater clarity, Section 120 include a reference to the use of the term “firm”.

Matter for IESBA Consideration

4. Do IESBA members agree with the Task Force proposals and/or have any specific suggestions?

Clarity and Appropriateness of the Term “Audit” including “Review”

32. There continues to be widespread support from stakeholders who commented on the question of whether the term “audit” should continue to include “review” in the independence standards.³¹ Some respondents³² emphasized that clarification of the term “audit” includes “review” should remain in the body of the Code in addition to its inclusion in the Glossary and should not be limited to a footnote. Some respondents³³ expressed the view that distinguishing audits from reviews enhanced clarity. A respondent³⁴ suggested that the restructured Code state that C1 equally applies to review engagements instead of mentioning that the audit engagement includes the review.

Preliminary Task Force Proposals

33. The Task Force remains of the view that it is appropriate for the proposed restructured Code to deal with audits and reviews in the same standards, and to disclose this in the body of the Code. The Task Force will reflect further on whether to use the term “audit” to include “review” or whether to modify that to simply state that the standards apply equally to audit and review engagements. The Task

²⁹ **National Standard Setter** NZAuASB **IFAC MB** CPA Canada

³⁰ **IFAC MB** CPA Canada

³¹ **Regulators and Oversight Authorities** IRBA PAAB SCM **Firms** BDO DTTL EY GTIL KPMG PWC **Public Sector Organization** GAO **Preparer** VRC **IFAC MBs** AAT ACCA AICPA CAANZ FAR HKICPA ICAEW ICAB ICAG JICPA MIA NFPCAA ROC SAICA **Other Prof Orgs** AIA SMPC (IFAC)

³² **Regulator and Public Authority** IRBA **Public Sector Org** GAO **IFAC MBs** ACCA SAICA MIA **Other Prof Org** SMPC (IFAC)

³³ **Regulator and Oversight Authority** UK FRC **National Standard Setters** APESB NZAuASB **Firm** PKF **IFAC MBs** CPA Canada CPA Australia IDW

³⁴ **Other Prof Org** FEE

Force noted that stakeholders, if they so wished, could choose to distinguish “audit” and “review” separately in domestic versions of their Code.

Matter for IESBA Consideration

5. Do IESBA agree with the Task Force proposals and/or have any specific suggestions?

Clarity and Appropriateness of the Distinction of Firms from Network Firms

34. There was widespread support for distinguishing firms and network firms.³⁵ However, a few respondents³⁶ preferred that the term “firm” continue to be used to include “network firm.” One of those respondents³⁷ expressed the view that ED-1 proposals change the requirement in the extant Code by stating that a network firm shall be independent of the audit clients of other firms only where “C1 specifically requires such independence”. There were also some respondents who commented on possible changes in meaning when distinguishing network firms. The Task Force plans to present its proposals in response to those comments to IESBA at its September 2016 Board meeting.

Preliminary Task Force Proposal

35. The Task Force remains of the view that it is appropriate to refer separately to firms and network firms. When developing proposed revised text, the Task Force will be mindful of concerns about inadvertent changes in meaning.

Matter for IESBA Consideration

6. Do IESBA members agree with the Task Force proposals and/or have any specific suggestions?

Other Matters

The Title

36. Respondents³⁸ were supportive of inclusion of the term “International” in the title. However, views on other elements of the title varied, with a few respondents finding the proposed title cumbersome³⁹ and several respondents expressing particular concern about combining the two terms “Code” and “Standards.”⁴⁰ Some respondents,⁴¹ however, preferred to retain the current title.

Preliminary Task Force Proposal

³⁵ **Regulators and Public Authorities** IRBA PAAB SCM UK FRC **National Standard Setters** APESB NZAuASB **Firms** CHI DTTL EY KPMG PKF PWC RSM **Public Sector Org** GAO **Preparer** VRC **IFAC MBs** AAT ACCA AICPA Assirevi CPA Australia FAR ICAB ICAG HKICPA ICAS JICPA MIA NCPAA ROC **Other Professional Organization** AIA

³⁶ **Firms** DTTL GTIL

³⁷ **Firm** DTTL

³⁸ **Regulators and Oversight Authorities** IRBA PAAB SCM **National Standard Setters** APESB NZAuASB **Firms** CHI EY GTIL KPMG PKF RSM **Public Sector Organization** GAO **Preparer** VRC **IFAC MBs** AAT ACCA AICPA CAANZ CPA Canada HKICPA ICAG MIA NBA NCPAA ROC OECFM SAICA **Other Prof Org** AIA **Individual and Other** DSF Juvenal

³⁹ **Regulator and Oversight Authority** NASBA **IFAC MB** FSR

⁴⁰ **Regulator and Oversight Authority** IRBA **Firm** DTTL PWC **IFAC MBs** CAANZ FAR ICAS JICPA WPK **Other Prof Org** FEE

⁴¹ **Regulator and Oversight Authority** IRBA **Firms** BDO DTTL KPMG **IFAC MBs** CAANZ FAR JICPA **Other Prof Org** SMPC (IFAC)

37. The Task Force is proposing that the new title be *International Code of Ethics for Professional Accountants*, with the notation *Including International Independence Standards* included under the title. The Task Force does not accept retention of the existing title because it does not include the word “international.”

Matter for IESBA Consideration

7. Do IESBA members agree with the Task Force proposals and/or have any specific suggestions?

Non-authoritative Guidance, including the Guide

38. There was widespread support from respondents for the Guide.⁴² However, a few respondents⁴³ commented that the Guide should not form part of the Code.
39. Respondents also commented that non-authoritative guidance should not be specifically mentioned in the Guide as such a reference was confusing and created uncertainty.⁴⁴

Preliminary Task Force Proposals

40. The Task Force proposes that the Guide be published with, but not form part of, the Code.
41. The Task Force also proposes that the reference to “non-authoritative guidance” be removed from the Guide. Such guidance may however, be available on the IESBA’s website.

Matter for IESBA Consideration

8. Do IESBA members agree with the Task Force proposals and/or have any specific suggestions?

Navigability of the Code, including Numbering and Layout

42. There was widespread support from respondents concerning the navigability of the Code.⁴⁵ Respondents made helpful suggestions for further improvements particularly with regard to the numbering and layout of the sections. Highlights of the substantive suggestions are set out in the following paragraphs.

Parts

43. As noted above, respondents favor further raising the profile of the fundamental principles; respondents also favor raising the profile of the independence standards. A few respondents⁴⁶ suggested that the word, “Introduction” be removed from the title of Part A of the proposed restructured Code or found the title confusing. Some respondents⁴⁷ suggested that independence standards be given a higher profile than “C1” and “C2.”

⁴² **Regulators and Public Authorities** PAAB IRBA SCM UK FRC National Standard Setter NZAuASB **Firms** BDO DTTL CHI GTIL KPMG **Public Sector Org** GAO Preparer VRC **IFAC MBs** AICPA CAANZ CPA Canada FAR FSR ICAB ICAG KICPA MIA NFCPAA ROC OECFM WPK

⁴³ **IFAC MBs** ACCA IDW **Other Prof Org** SMPC (IFAC)

⁴⁴ **Firm** BDO **IFAC MBs** ACCA CPA Canada ICAEW **Other Prof Org** SMPC (IFAC)

⁴⁵ **Regulators and Public Authorities** IRBA SCM **Firms** BDO EYG GTIL PKF **Public Sector Organization** GAO **IFAC MBs** ACCA CPA Canada ISCA JICPA KICPA WPK **Other Prof Orgs** AIA SMPC (IFAC) **Individual and Other** DSF Juvenal

⁴⁶ **Firm** RSM **IFAC MBs** ACCA CPA Canada

⁴⁷ **National Standard Setters** APESB NZAuASB **Firm** EY **IFAC MB** ACCA

Numbering including Subsections

44. The numbering system of the sections attracted many comments and suggestions from respondents. Respondents who supported the numbering system proposed in ED-1⁴⁸ commented that the format is simple, clear, adequate, more navigable and similar to other standards and Codes. Other respondents proposed a variety of alternative numbering systems.⁴⁹ There was no general consensus proposal among respondents⁵⁰ who did not support the numbering system as to what the numbering system should be.
45. A number of other comments were made as follows:
- That numbers should be reserved for future use by countries in implementing their codes.
 - That there should be specific increments between section and subsection numbers.⁵¹
 - That subsections should be kept to a minimum.⁵²
 - That subsections where the link with the overall section is either unclear or weak be addressed.⁵³

Visibility of Requirements

46. Respondents⁵⁴ commented on the use of “R” as a prefix to denote a requirement and “A” as a suffix to denote application material. Some respondents⁵⁵ suggested that to avoid complexity “R”s and “A”s should either be prefixes or suffixes, but not a mixture of both.
47. Many respondents⁵⁶ suggested that requirements would be clearer if presented in bold font, noting that this is simple and effective. The Task Force notes that a number of the standard setter respondents use bold font in their own standards. The Task Force has included the following illustration of bold font to demonstrate its simplicity:

Firm or Audit Team Member Relationships

520.4 The firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management unless any financial interest is immaterial and the business relationship is insignificant to the firm, the network firm or the audit team member, as the case may be, and the client or its management.

⁴⁸ **Regulator and Public Authorities** IRBA PAAB **National Standard Setter** NZAuASB **Firm** EY GTIL **IFAC MBs** CPA Canada ICAG MIA SAICA **Other Prof Org** SMPC (IFAC) **Individual and Other** DSF Juvenal

⁴⁹ **National Standard Setter** APESB **Firm** PKF **Public Sector Organization** GAO **IFAC MBs** AICPA CPA Canada ISCA KICPA

⁵⁰ **National Standard Setters** APESB NZAuASB **Firm** RSM **IFAC MBs** AICPA CPA Australia FSR **Other Prof Org** FEE

⁵¹ **Firm** PKF

⁵² **Other Prof Org** AIA

⁵³ **Regulator and Public Authority** UK FRC

⁵⁴ **National Standard Setters** APESB NZAuASB **IFAC MBs** ACCA FAR WPK

⁵⁵ **National Standard Setter** NZAuASB **IFAC MBs** ACCA FAR WPK

⁵⁶ **National Standard Setters** APESB NZAuASB **Firms** DTTL EYG KPMG PWC RSM **IFAC MBs** CAANZ CPA Canada ICAEW **Other Prof Orgs** SMPC (IFAC) AIA

520.4.1 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client. ...

Preliminary Task Force Proposals

Parts

48. The Task Force proposes raising the profile of the fundamental principles in the title to Part A of the proposed restructured Code by removing the term “introduction”.
49. The Task Force also proposes removing the letters describing Parts in the Code. This would increase the prominence of the fundamental principles and conceptual framework, avoid any confusion arising from the reversal of Parts B and C, and raise the profile of the international independence standards. The Task Force proposes to rename the various parts of the Code as follows:
- Fundamental Principles and Conceptual Framework (Sections 100 to 199).
 - Professional Accountants in Business – General (Sections 200 to 299).⁵⁷
 - Professional Accountants in Public Practice – General (Sections 300 to 399).
 - International Independence Standards (Sections 400 to 999).

Numbering including subsections

50. The Task Force remains of the view that the numbering system in ED-1 is reasonable. The numbering system needs to accomplish a number of objectives including reasonable simplicity; the visibility of requirements and their related application material; and the ease of adding of future material, both when adding to an existing section and when introducing new sections.

Visibility of requirements

51. The Task Force remains of the view that the use of bold font would improve the visibility of requirements and reduce complexity by eliminating the need to use the “R” and “A” approach. While recognizing that bolding has been rejected by the Board previously, the Task Force mentions it again in response to the input received from respondents. A concern expressed previously about the use of bold font is that it might appear to de-emphasize application material. If the use of bold font is not available, the Task Force recommends continuing to use the same presentation of requirements and application material as in ED-1 because it allows users to more readily distinguish requirements and application material.

Matter for IESBA Consideration

9. Do IESBA members agree with the Task Force proposals and/or have any specific suggestions?

Glossary and Defined Terms

52. Respondents commented on the Glossary as follows:

⁵⁷ This title might be impacted by the work of the Part C Task Force.

- That the Glossary be located at the front of the material, for example following the Guide.⁵⁸ A respondent mentioned that most standard setters and legislators provide the definitions at the beginning of a document rather than at the end.⁵⁹
- Defined terms be highlighted in the paper copy.⁶⁰
- Instances where a term is defined/explained in the body of the Code and then included in the Glossary should be eliminated.⁶¹

Preliminary Task Force Proposal

53. The Task Force is proposing that the Glossary be included at the beginning of the Code to immediately bring the reader's attention to the definitions. The Task Force is not proposing highlighting definitions or removing the duplication of important terms in the body of the Code. The Board and respondents to the CP have previously concluded that certain terms should be included in both the Glossary and the body of the Code, and highlights would be unduly distracting. Linkage to the Glossary will be facilitated by future electronic enhancements.

II: **Input from Respondents to ED-1 Relating to Wording**

Specific Drafting Suggestions, including Suggestions to Avoid Possible Changes in Meaning

54. Many respondents made helpful and specific drafting comments⁶² including suggestions to avoid possible changes in meaning.⁶³ The Task Force has considered all input received and developed preliminary proposals for further improvements to the proposed restructured Code. The Task Force's proposals will be brought to the Board's September 2016 meeting, after being refined to reflect board input on the matters addressed in this issues paper. The proposals being developed for discussion at the September 2016 Board meeting reflect, amongst other things, proposals that:
- Reduce duplication of material.
 - Address inadvertent changes in meaning created by editorial changes in ED-1.
 - Address further opportunities to improve the flow and overall readability of the restructured Code, – including working with the Safeguards Task Force to respond to input received on Section 300.
 - Address matters raised separately in this issues paper.
55. The extant Code refers to public interest in a few places, the first being in paragraph 100.1:

⁵⁸ **National Standard Setters** APESB NZAuASB **Firms** KPMG DTTL

⁵⁹ **National Standard Setter** APESB

⁶⁰ **IFAC MB** ICAEW

⁶¹ **National Standard Setters** APESB NZAuASB **Firm** KPMG

⁶² **Regulator and Oversight Authorities** IOSCO IRBA PAAB UK FRC **National Standard Setters** APESB NZAuASB **Firms** BDO DTTL EY PKF PWC RSM **IFAC MBs** ACCA CIMA CPA Australia CPA Canada ICAS IDW JICPA MIA NBA SAICA **Other Prof Orgs** FEE SMPC (IFAC)

⁶³ **Regulators and Public Authorities** IOSCO IRBA UK FRC **National Standard Setters** APESB **Firms** BDO DTTL EY KPMG PWC **IFAC MBs** CAANZ CPA Australia GTIL HKICPA ICAS IDW ICAEW ISCA KICPA NBA SAICA **Other Prof Orgs** FEE SMPC (IFAC)

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a professional accountant shall observe and comply with this Code. If a professional accountant is prohibited from complying with certain parts of this Code by law or regulation, the professional accountant shall comply with all other parts of this Code.

Public interest has in recent times has received attention and has been noted by the Task Force as a matter for Board attention. A respondent⁶⁴ commented on the wording in proposed paragraph 100.1 from the corresponding 100.1 in the extant Code. This respondent expressed the view that this presents certain difficulties, the implication being that the responsibility to act in the public interest rests with the individual accountant rather than with the profession.

56. ED-1 followed the drafting guideline for the use of the terms “may” and “might.” A respondent⁶⁵ commented that there were some instances where:

“the use of the term ‘might’ may not be appropriate in a practical sense. For instance, proposed paragraph 300.2 A1, ... describes a number of scenarios where threats are present, and the lead in paragraph describes it as “might.” We respectfully suggest that in most of those instances it is more than likely that threats are present. Other instances where APESB considers ‘might’ is not the appropriate term to use are in paragraphs R120.5, 120.5 A1, R120.8, 300.2 A3 and 300.2 A11.

...it is likely that a professional accountant may argue that in the identified circumstances it might not create a threat to the fundamental principles when a reasonable third party is likely to conclude that it does create a threat to the fundamental principles.

We believe that the use of “may” in the extant Code is stronger than the use of “might” in the proposed revisions.”

Some other respondents⁶⁶ also commented on the use of “might” or “may”

The Task Force reviewed the use of the word “may” and “might” throughout the ED. As a result of that review, it will be proposing amendments to some paragraphs to apply the drafting guidelines and enhance the clarity of the language.

57. Although most respondents to ED-1 accepted the abbreviated term “accountant” after the first use of the term “professional accountant” in a paragraph to reduce repetition, a few respondents⁶⁷ found the abbreviation confusing because it is not a defined term. The Task Force abbreviated the term in response to comments on the CP that repetition be avoided. The Task Force remains of the view that the meaning is clear in context.

⁶⁴ IFAC MB ICAEW

⁶⁵ National Standard Setter APESB

⁶⁶ National Standard Setter NZAuASB IFAC MB ICAEW Other Prof Org FEE

⁶⁷ National Standard Setter APESB Firms BDO EYG IFAC MB Assirevi

Matter for IESBA Consideration

10. Do IESBA members have any comments related to wording?

III: Next steps

Matters for Board Attention

58. Appendix 2 provides a summary of certain matters outside the scope of the Structure project that the Task Force noted for Board attention. A summary of all matters noted for Board attention over the course of the project will be summarized for the September 2016 Board meeting.

Electronic Enhancements and Tools

59. There was widespread support from respondents for electronic enhancements⁶⁸ and tools.⁶⁹ Many helpful suggestions were received and these have been collated by the Task Force for its future attention during the next phase of work.
60. Some respondents⁷⁰ expressed a desire for a scalable Code that enables a user to focus on what is relevant. A respondent⁷¹ noted that this is important to ensure the end product is useable by the full range of firms, both small and large. The Task Force expects that the electronic enhancements that are contemplated will facilitate tailoring to user needs.
61. While recognizing the desirability of electronic enhancements, several respondents⁷² commented that any electronic version of the Code should always be accompanied by a usable paper/pdf version of the Code. For example, there are certain jurisdictions in which it is necessary for the Code to be published in an official journal.⁷³ In addition, a respondent⁷⁴ commented that some professional accountants may not have the means to use an electronic Code. The Task Force acknowledges that it is appropriate for there to be a paper/pdf version of the Code.

Forward Timetable

62. The Task Force is working towards obtaining agreement in principle for Phase 1 at the Board's December 2016 meeting. In response to input from several respondents⁷⁵ the Task Force is seeking issuance of ED-2 after the Board's December 2016 meeting, with a hyperlink to a Staff document containing the complete proposed restructured Code – including both phases of the Structure and Safeguards projects. These respondents preferred to have an opportunity for the complete proposed

⁶⁸ **Regulators and Oversight Authorities** IRBA SCM **National Standard Setters** APESB NZAuASB **Firms** PKF PWC RSM **Public Sector Organization** GAO **IFAC MBs** AAT ACCA AICPA CAANZ CPA Australia CPA Canada FAR ICAB MIA NBA NCFCPAA ROC SAICA WPK **Other Prof Orgs** AIA FEE SMPC (IFAC)

⁶⁹ **Regulators and Oversight Bodies** IRBA SCM **National Standard Setters** APESB NAZAuASB **Firms** BDO PKF RSM **Public Sector Organization** GAO **IFAC MBs** AAT ACCA AICPA CAANZ CPA Canada FAR ICAB ICAEW NBA NCFCPAA ROC SAICA **Other Prof Org** AIA FEE

⁷⁰ **National Standard Setter** NZAuASB **IFAC MB** CPA Australia ICAS **Other Prof Org** FEE SMPC (IFAC)

⁷¹ **Other Prof Org** SMPC (IFAC)

⁷² **Firm** EYG **IFAC MBs** ACCA CPA Australia FSR ICAEW MIA ISCA WPK **Other Prof Orgs** FEE SMPC (IFAC)

⁷³ **IFAC MBs** FSR NBA **Other Prof Org** FEE

⁷⁴ **Other Prof Org** SMPC (IFAC)

⁷⁵ **Firms** DTTL EYG **IFAC MBs** ACCA CAANZ CPA Canada ICAS IDW NBA WPK **Other Prof Org** FEE

restructured to be Code available when reviewing the Phase 2 proposals. Explanations of significant changes from ED-1 will further assist stakeholder review.

63. A few respondents⁷⁶ recommended some form of pilot testing. The Board has already indicated encouragement of early consideration of implementation issues and the availability of a complete proposed restructured Code will facilitate this.

Matter for IESBA Consideration

11. Do IESBA members have any comments on next steps?

⁷⁶ Firms KPMG PWC IFAC MB AICPA

Appendix 1

List of Respondents (As of June 8, 2016)

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

#	Abbrev.	Respondents (50)	Region
Regulators and Oversight Authorities (6)			
1.	IOSCO	International Organization of Securities Commissions	Global
2.	IRBA	Independent Regulatory Board for Auditors (South Africa)	SA
3.	NASBA	National Association of State Boards of Accountancy	NA
4.	PAAB	Public Accountants and Auditors Board (Zimbabwe)	SA
5.	SCM	Securities Commission of Malaysia	AP
6.	UK FRC	United Kingdom Financial Reporting Council	EU
National Standard Setters (2)			
7.	APESB	Accounting Professional & Ethical Standards Board Limited-Australia	AP
8.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
Firms (10)⁷⁷			
9.	BDO*	BDO Global Coordination B.V.	Global
10.	CHI	Crowe Horwath International	Global
11.	DTTL*	Deloitte Touche Tohmatsu Limited	Global
12.	EYG*	Ernst and Young	Global
13.	GTIL*	Grant Thornton International Limited	Global
14.	KPMG*	KPMG	Global
15.	PKF	PKF	Global
16.	PwC*	PricewaterhouseCoopers	Global
17.	RSM	RSM UK	Europe
18.	SRA	SRA (Netherlands)	EU
Public Sector Organizations (1)			
19.	GAO	United States Government Accountability Office	NA

⁷⁷ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies.

#	Abbrev.	Respondents (50)	Region
Preparers (1)			
20.	VRC	Vereniging van Registercontrollers – Netherlands Association of Register Controllers	EU
IFAC Member Bodies and Other Professional Organizations (29)			
21.	AICPA	American Institute of Certified Public Accountants Auditing Standards Board Professional Ethics Executive Committee	NA
22.	AAT	Association of Accounting Technicians	EU
23.	ACCA	The Association of Chartered Certified Accountants	Global
24.	AIA	Association of International Accountants	Global
25.	Assirevi	Assirevi	EU
26.	CAANZ	Chartered Accountants Australia and New Zealand	AP
27.	CIMA	Chartered Institute of Management Accountants	Global
28.	CPAA	CPA Australia	AP
29.	CPA Canada	Chartered Professional Accountants of Canada	NA
30.	FAR	FAR (Sweden)	EU
31.	FEE	Fédération des Experts Comptables Européens	EU
32.	FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants)	EU
33.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
34.	ICAB	The Institute of Chartered Accountants of Bangladesh	AP
35.	ICAEW	The Institute of Chartered Accountants in England and Wales	Global
36.	ICAG	The Institute of Chartered Accountants Ghana	SA
37.	ICAS	The Institute of Chartered Accountants of Scotland	EU
38.	IDW	Institut der Wirtschaftsprüfer	EU
39.	IPA	Institute of Public Accountants	AP
40.	ISCA	Institute of Singapore Chartered Accountants	AP
41.	JICPA	The Japanese Institute of Certified Public Accountants	AP
42.	KICPA	Korean Institute of Certified Public Accountants	AP
43.	MIA	Malaysian Institute of Accountants	AP
44.	NBA	Nederlandse Beroepsorganisatie van Accountants	EU

#	Abbrev.	Respondents (50)	Region
45.	NFCPAA ROC	The National Federation of Certified Public Accountant Associations of the Republic of China	AP
46.	OECFM	Ordre des Experts Comptables et Financiers de Madagascar (OECFM)	MEA
47.	SAICA	The South African Institute of Chartered Accountants	MEA
48.	SMPC (IFAC)	IFAC Small and Medium Practices Committee	Global
49.	WPK	Wirtschaftsprüferkammer	EU
Individual or Other (1)			
50.	DSF Juvenal	Denise Silva Ferreira Juvenal	SA

List of Matters for Board Attention

#	Section #	Comments from Respondents
General Matters		
1.	100.1	As noted in paragraph 55 of this issues paper a respondent has commented on the public interest.
2.	100.4 (b)	Should be no optionality on whether an accountant has to report a breach or not. ⁷⁸
3.	R100.4	This is a good opportunity to introduce a reference to actions to prevent a breach of the Code. ⁷⁹ Today, the professional accountant is required to address the consequences of the breach and determine whether to report the breach, but no specific action must be taken to stop the activity that causes the breach
4.	R320.5	<p>Include a requirement that where a proposed client refuses to give permission for the proposed auditor to communicate with the existing auditor, or fails to do so, the proposed auditor shall decline the appointment, unless there are certain exceptional circumstances.⁸⁰</p> <p>Note: Paragraph 210.14 of the recently approved NOCLAR pronouncement states:</p> <p>“... If the client fails or refuses to grant the predecessor accountant permission to discuss the client’s affairs with the proposed successor accountant, the predecessor accountant shall disclose this fact to the proposed successor accountant, who shall carefully consider such failure or refusal when determining whether or not to accept the appointment.”</p>
5.	402.1	This paragraph would require documentation evidencing “judgments when forming conclusions regarding compliance with independence requirements.” The documentation should be required to be of a standard that would enable another professional to understand the judgments made and the reasons. Further guidance should be provided. ⁸¹

⁷⁸ Regulator Public Oversight Body IOSCO

⁷⁹ Other Prof Org FEE

⁸⁰ Regulator and Oversight Authority IRBA

⁸¹ Regulator and Oversight Authority IOSCO

#	Section #	Comments from Respondents
Use of the Term “Encouraged”		
6.	Guide Paragraph 12	Paragraph 12 [involving exceptional circumstances] would “encourage” rather than require the accountant to document the reasons for such a decision. ⁸² Section 12 should require rather than encourage documentation.
7.	320.3 A3	A professional accountant should be required rather than encouraged to conduct periodic reviews of acceptance decisions for recurring client engagements. ⁸³
8.	400.6	Public interest - It is incumbent on any firm or member body to determine whether to treat additional entities, or certain categories of entities as PIES, yet the term “are encouraged” implies choice in carrying out this determination – it should be made a requirement. ⁸⁴
9.	402.2 A1	This guidance says that a lack of documentation does not determine whether a firm has considered a particular matter or whether it is independent. This paragraph is unnecessary and can undermine the documentation requirements and their enforceability. The paragraph should be removed. ⁸⁵ In paragraph it may be helpful to point out that, whilst a lack of documentation does not determine independence (or lack of), it can be encouraged to assist the professional accountant in justifying their decisions. ⁸⁶
Other Instances of the Term “Encouraged” In the Proposed Restructured Code		
10.	300.1	“... encouraged to be alert ...”
11.	115.2 A1	Consultation
12.	310.11 A4	Documentation
13.	400.15 A1	Communication with TCWG
Use of the Term “Generally Necessary”		
14.	310.11 A2	This paragraph states: It is generally necessary:

⁸² Regulator and Public Authority IOSCO

⁸³ Regulator and Oversight Authority IRBA

⁸⁴ IFAC MB SAICA

⁸⁵ Regulator and Oversight Authority IOSCO

⁸⁶ IFAC MB ICAEW

#	Section #	Comments from Respondents
		<p>(a) To disclose the nature of the conflict of interest and any related safeguards to clients affected by the conflict; and</p> <p>... To obtain the consent of the affected clients to perform the professional services.</p> <p>A respondent⁸⁷ suggests making such provisions requirements.</p>
Glossary Definitions		
15.	Engagement Period	The period should not be limited to the date that the audit report is issued as the auditor has further responsibilities, such as addressing the effect on the opinion of matters that come to the auditors' attention after conclusion of the audit. ⁸⁸
16.	Financial interest	The definition may need to be broadened to cover interests such as financial interests in a trust. ⁸⁹
17.	Firm	<p>The definition is quite narrow and it is not clear whether a firm could have non-member employees and what the responsibility is of individual professional accountants for non-members.⁹⁰</p> <p>The description of network firm is sufficiently broad but the description of firm potentially narrow in its references to structures known to exist today which may become limiting for the future. ...⁹¹</p>
18.	Network Firm	Consider setting out a definition which requires the exercise of judgement which is preferable to providing a list of examples. ⁹² As borders between associations and networks increasingly diffuse consider any potential Code implications which might impact on the definition of network firm. ⁹³
19.	Professional Accountant	The definition may not adequately include retired or inactive professional accountants. ⁹⁴

⁸⁷ **Regulator and Oversight Authority** IOSCO

⁸⁸ **Regulator and Oversight Authority** IOSCO

⁸⁹ **Regulator and Oversight Authority** IOSCO

⁹⁰ **IFAC MB** CPA Canada

⁹¹ **IFAC MB** CPA Canada

⁹² **Regulator and Oversight Authority** UK FRC

⁹³ **Other Prof Org** SMPC (IFAC)

⁹⁴ **IFAC MB** CPA Canada