

# Supplement 1 to Agenda Item 3

## Structure ED-2 Compilation of General Comments (As of June 6, 2017)

**Note:** This supplement has been prepared for information only. It contains comments received as of June 6, 2017 on the January 2017 Exposure Draft, [\*Improving the Structure of the Code of Ethics for Professional Accountants—Phase 2\*](#) (Structure ED-2). All comment letters on the ED can be accessed [here](#).

**Please consider the environment before printing this supplement.**

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

#	Respondent	Detailed Comment
1.	AAA	<p><b>Comments on:</b> <i>Chapter 3 – Proposed Restructured Text of the Long Association Close-Off Document</i></p> <p>While research on the benefits of limiting long auditor-client associations through mandatory audit partner rotation has reached mixed conclusions (c.f., Lennox 2014; Sharma, Tanyi and Litt 2017), our comments are not intended to sway the IESBA in their decision to institute a mandatory audit partner rotation regimen. Our comments are intended to help clarify the proposed new Code.</p> <ol style="list-style-type: none"> <li>1. We suggest that the phrase “and maintain an attitude of professional skepticism” be added after “be independent” in ¶540.1 and ¶940.1. Familiarity threats related to the audit client’s operations (¶540.4 A1(a)), financial statements (¶540.4 A1(c)), and subject matter of the assurance engagement (¶940.4 A1(b)) seem more likely the result of impaired professional skepticism as opposed to impaired independence.</li> <li>2. Related to ¶540.4 A2, smaller firms are more economically dependent on their individual clients and research supports that audit firm size and audit quality are negatively related (refer to DeFond and Zhang 2014, 299, for a review of this research). We therefore recommend that the Board consider adding the following statement to the end of this paragraph: “Smaller auditing firms may be particularly vulnerable to these types of economic dependence pressures. As such, smaller firms should carefully consider their ability to maintain their independence and professional skepticism in their audits of PIEs.” Consideration should also be given to including similar wording to ¶940.4 A2</li> <li>3. We believe ¶R540.6 should be modified to add the identifier “key audit partner” between “following” and “roles” in order to identify which types of individuals this paragraph addresses.</li> </ol>

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		<p>This change would also make it more consistent with the subsequent paragraphs where the phrase “key audit partner” is used.</p> <p>4. We believe the IESBA should consider providing examples in ¶R540.6 (c) “Any other key audit partner role” to assist auditors and audit firms in determining the types of roles the Board is referring to here. Examples of these roles may be similar, or identical, to the restricted activities in the cooling-off period discussed in ¶R540.19. For example, is being the audit firm’s relationship partner for the client considered an “other key partner role” in ¶R540.6 (c), or just a prohibited cooling-off activity in ¶R540.19? If a partner provides non-assurance services to an audit client, is that role considered an “other key partner role” in ¶R540.6 (c), or just a prohibited cooling-off activity in ¶R540.19? Further, the Glossary of the <u>Agreed-in-Principle</u> document includes the following in the definition of <i>key audit partner</i>: “Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.” Thus, more guidance is warranted to assist in the determination of who may be considered “other” key audit partners.</p> <p>5. If an auditing firm does not have sufficient qualified personnel to periodically rotate the key audit partner, we believe the firm should consider whether it is qualified to conduct the audit of a Public Interest Entity (¶R540.9). We recognize that certain circumstances may exist when the auditing firm’s qualifications are not a concern. However, we suggest that the Board consider including the following statement to the end of ¶R540.9: “Auditing firms needing to invoke this exception should carefully consider whether they have sufficient resources to conduct the audit of a public interest entity given the auditing standards requirements that auditors be competent, independent, and adequately supervise their audit engagements.”</p> <p>6. We also agree with the elimination of allowing any form of partner technical consultations in the cooling-off period that was removed in the final draft of the <u>Close-Off Document: Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client</u>. Such consultations, in any form, in the cooling-off period would be disingenuous to the Board’s intent of creating a separation between the individual key audit partner and the client company.</p>

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		<p>7. In ¶540.19 A1, clarify to which “firm” the Board is referring. Is it a senior leadership position in the audit firm or the client firm? The term “Chief Executive” may be interpreted to mean an executive of the audited client firm, or a senior management position within the audit firm.</p> <p>8. We believe the Board should consider including an additional item called “the assurance client’s individual(s) who is the responsible party or, if relevant, senior management” as the second item listed under ¶940.4 A1 to mirror the items listed in ¶540.4 A1. The wording in subsequent paragraphs (¶940.4 A2; ¶940.5 A1) refers to threats related to responsible individuals (or senior management, if relevant) of the assurance client, which suggests that consistency with Section 540 is warranted.</p> <p><b>References</b></p> <p>DeFond, M., and J. Zhang. 2014. A review of archival auditing research. <i>Journal of Accounting and Economics</i> 58: 275-326.</p> <p>Lennox, C. S. 2014. Auditor tenure and rotation. In <i>Routledge Companion to Auditing</i>, edited by Hay, D., W. R. Knechel, and M. Willekens, 89-106. Abingdon, U.K.: Routledge.</p> <p>Sharma, D. S., P. N. Tanyi, B. A. Litt. 2017. Costs of mandatory periodic audit partner rotation: Evidence from audit fees and audit timeliness. <i>Auditing: A Journal of Practice and Theory</i> 36 (1): 129-149.</p>
2.	AAT	<p>AAT fully supports the direction of travel the IESBA proposes in this exposure draft and considers that it is the right approach to facilitate compliance with the fundamental principles. It is AAT’s view that this will enhance clarity, and be more appropriate and effective than the existing approach to the conceptual framework.</p>
3.	ACCA	<p>We remain supportive of this project and the intended outcomes, and we see continued improvements to the structure within the Phase 2 proposals. The project has been made more complicated by the need to consider changes to the requirements of the Code during the course of restructuring the Code (the intention of which was <i>not</i> to change the requirements). Therefore, we appreciate the publication of the agreed-in-principle text at this stage.</p> <p>Our concern remains that the proposals fail to address adequately the importance of having a Code that is not of excessive length. Much of the repetition within the Code serves no purpose, but obscures the more important content. Repetition also presents a risk of inconsistency between different sections,</p>

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		<p>which is damaging. Part 1 is the fundamentally important Part, and any tendency to repeat its content elsewhere should be questioned. This concern relates to the understandability objective of this project, and is relevant to all users of the Code. However, it is particularly relevant to those professional accountants in Small and Medium Practices (SMPs), who generally do not have the resources of larger organisations.</p> <p>We acknowledge that '[t]he IESBA does not intend to make changes to the Phase 1 agreed-in-principle text unless required to ensure consistency with the final text of Phase 2 of the Structure project'. However, it is only at this stage that we can reasonably start to see weaknesses in the outcomes of the Phase 1 stage. We are particularly concerned by the unnecessary length of the restructured sections of the Code. For example, given the clear and effective structure of sections 200 and 300 regarding the application of the conceptual framework, to include a paragraph in almost every section to reiterate the requirement to comply with the fundamental principles and apply the conceptual framework has no value. In fact, in each section, this is an introductory paragraph, which includes the words 'Professional accountants are required to ...' but is not numbered with an 'R' prefix. This could cause confusion.</p> <p>We would suggest a pragmatic approach whereby the further simplification of individual paragraphs and sentences throughout the Code is held over to the initial review of the restructured Code. There remain several examples of text that is confusing or over-complicated.<sup>1</sup> Although the exercise of identifying such text could start immediately, we propose that the time for releasing a 'simplification exposure draft' would be one year after the issue of the restructured Code. At that stage, it might be appropriate to also expose possible amendments to align the International Independence Standards (IISs) with ISAE 3000 (Revised).</p> <p>The IESBA should be wary of possible situations in which moving paragraphs (or parts of paragraphs) might change the emphasis. For example, proposed paragraph 310.3 is derived from part of extant paragraph 220.1; it refers to independence and the IISs, but does not mention objectivity, and does not explain the difference between objectivity and independence. (The relationship between objectivity and independence is something that we shall comment on further in our response to the Exposure Draft on <i>Proposed Application Material Relating to Professional Skepticism and Professional Judgment</i>.)</p> <p>We welcome the proposed structure that places the IISs in a separate Part at the end of the Code, but keeps them close to the other provisions that are most relevant to professional accountants in public</p>

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See, for example, paragraphs 120.6A1, 240.2, 270.4A6, and 400.60A1

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		<p>practice. Overall, we urge the IESBA not to lose sight of the risk that the Code could be perceived as becoming more rules-based. We recognise that this is a risk, given the objective of making the Code more enforceable. However, a principles-based Code – clearly set out - is essential to the project's objective of enhanced compliance with the Code.</p> <p>Factors that would affect the navigation of an electronic version of the Code must also be considered at this stage. Identifying sections that are unlikely to be relevant to SMPs would, in future, help those SMPs to tailor the Code to their circumstances, providing better focus and understanding.</p> <p>We also recommend an exercise to review each 'introduction' for other paragraphs that do not add value. The removal of such redundant text will provide better focus on the important requirements and application material in the restructured Code. Beyond this,</p>
4.	AE	<p>General comments</p> <p>In our comments to the IESBA Exposure Draft Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1 dated 18 April 2016, we made the following remarks:</p> <ul style="list-style-type: none"> <li>• The proposed title would be misleading as the intention is not to develop standards for all parts of the Code;</li> <li>• It is important to distinguish between the fundamental principles and those principles that may result in standards;</li> <li>• We favor a 'building block' or a 'layered' approach that could be easily scalable – a core block for all professional accountants (including SMPs) and complementing blocks dealing with specific activities or circumstances;</li> <li>• We welcome the approach of maintaining the existing link between the Code, ISQC 1 and ISAs.</li> </ul> <p>Firstly, we welcome that the majority of our comments regarding Phase 1 have been accommodated in the Basis for Agreement in Principle, especially the creation of independent sections for the independence standards.</p> <p>Nevertheless, this restructuring may be seen as a shift towards a more rules-based Code. As mentioned in our comments to Phase 1, the main concern of the Code should remain to address the mind-set and behavior of the professional accountant instead of promoting mere compliance with a set of provisions. Compliance with each of the requirements does not necessarily mean compliance with</p>

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		<p>the fundamental principles and conceptual framework, and this aspect should be emphasized in this restructuring exercise.</p> <p>We would also like to reiterate our preference for a ‘building block ‘or a ‘layered’ approach that could be easily scalable – a core block for all professional accountants (including SMPs that do not deal with Public Interest Entities (PIEs)) and complementing blocks dealing with specific activities or circumstances. This can be easily implemented with a proper electronic tool that enables, among other features, the distinction between provisions applicable to PIEs and non-PIEs - the electronic Code can help in this regard. This approach would also help reduce the length of the Code that needs to be considered by most professional accountants.</p> <p>Lastly, although we understand that IESBA has taken into account the anticipated approval dates for various sections of the Code currently under revision or restructuring, that will mean that some parts of the Code will be applicable in the old format, for a short period of time, in a very inefficient way.</p> <p>For the sake of consistency and clarity, we support only one application date – 15 June 2019. We do not foresee significant disadvantages in aligning the effective dates, as set out in paragraphs 20 and 21 of the explanatory memorandum, that could outweigh the positive practical implications of doing so.</p> <p>(a) Small and Medium Practices (SMPs) and PAIBs – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.</p> <p>It would be very useful to distinguish between provisions applicable to PIEs and non-PIEs in the proposed Code. This distinction could help make the provisions of the Code more understandable to SMPs. There is still room for improvement to make clear to SMPs what provisions of the Code are applicable to them or not.</p> <p>We favor a ‘building block ‘or a ‘layered’ approach that could be easily scalable – a core block for all professional accountants (including SMPs that do not deal with PIEs) and complementing blocks dealing with specific activities or circumstances. This can be easily implemented with a proper electronic tool that enables, among other features, the distinction between provisions applicable to PIEs and non-PIEs - the electronic Code can help in this regard. This approach would also help reduce the length of the Code that needs to be considered by most professional accountants.</p> <p>(b) Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.</p>

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		<p>Not applicable.</p> <p>(c) Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.</p> <p>Accountancy Europe has no comments on this question.</p> <p>(d) Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.</p> <p>For non-English-speaking countries and countries that have only recently translated the Code, modification of the structure of the Code will likely be very costly and time consuming in order to adapt their current provisions to the new structure.</p> <p>Furthermore, a modification of this magnitude will probably lead to a longer translation period.</p>
5.	AICPA	<p><b>General Comments</b></p> <p>We support the IESBA's objective of setting high-quality ethics standards for professional accountants around the world and facilitating the convergence of international and national ethics standards. However, considering the release of this exposure draft, coupled with the exposure draft concerning the safeguards of the IESBA Code, we believe the amount of material exposed for comment is significant. This could lead to a low response rate or ineffective responses due to "comment fatigue."</p> <p>Overall, we do not believe there are any unintended changes in the meaning of the Code due to the application of the proposed drafting conventions as developed during Phase 1 of the project to the sections selected for editing within Phase 2 of the project.</p> <p><i>Eligible Audit Engagement</i></p> <p>We believe that a more appropriate term could be used, for clarity, to describe an engagement to issue a restricted use and distribution report. The phrase "eligible audit engagement" is not very clear in its meaning as proposed in Section 800, <i>Reports that Include a Restriction on use and Distribution</i>. For example, the phrase "restricted use audit engagement" or "restricted use assurance engagement" may be a more proper descriptor.</p> <p><i>Audit of Specific Elements, Accounts or Items of a Financial Statement</i></p>

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		<p>We agree with the conclusion to include a specific reference to an audit of specific elements, accounts or items of a financial statement as being in the scope of extant Section 291.</p>
6.	APESB	<p>APESB is supportive of the IESBA's project to restructure the existing Code. We believe that a restructured Code will raise the visibility of the Code's requirements, simplify the Code's language and assist professional accountants in understanding and applying the requirements of the Code.</p> <p>We commend the IESBA in undertaking this major project and for the Board's efforts to ensure that the extant Code's requirements and guidance is maintained in Structure 2 ED. We believe that IESBA has achieved this objective subject to APESB's key recommendations in this submission.</p> <p>APESB is supportive of the effective dates for the restructured Code. We strongly support the IESBA's plan to monitor developments in respect of the proposed long association provisions, including the review of the impact of the proposed jurisdictional clause before its expiry on 15 December 2023. It is imperative that this review should include gathering and consideration of empirical information relating to the impact of auditor rotation on audit quality.</p> <p>In developing APESB's response to the Structure 2 ED, we have taken into consideration Australian stakeholders' feedback from two roundtable events conducted by APESB in Melbourne and Sydney in March 2017. APESB has also considered the Compilation of Proposed Restructured Code issued by the IESBA in conjunction with the release of the Structure 2 ED in January 2017.</p> <p><b>Key Recommendations</b></p> <p>APESB's key recommendations for the IESBA's consideration are:</p> <ul style="list-style-type: none"> <li>• strengthen the general requirements in each section to ensure the requirements are clearly set out and understandable if the section is read in isolation;</li> <li>• enhance the requirements in the Code by removing from requirements paragraphs the need to meet obligations in application material (refer to page 4);</li> <li>• clarify specific provisions by removing or revising specific phrases to remove limitations or to enhance the readers' ability to understand the provision (refer to pages 4 - 6);</li> </ul>



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		<ul style="list-style-type: none"> <li>perform a review of the Structure 2 ED in respect of instances where the term ‘might’ is used to ensure it is applied consistently with the drafting conventions;</li> <li>consider implementing consistent numbering of sections in Part 4A and Part 4B;</li> <li>consider adopting a simpler sequential numbering system that will clearly define the relationships between the requirements and application material in the Code; and</li> <li>relocate the glossary to the beginning of the Code, preferably after the Guide to the Code.</li> </ul> <p>Further information on APESB’s key recommendations and other comments are included in Appendix A and specific editorial comments are included in Appendix B for the IESBA’s consideration.</p> <p><i>(a) Small and Medium Practices (SMPs) and PAIBs</i>              APESB believes the proposals in the Structure 2 ED such as the simplified language and increased clarity of responsibilities of firms and individual professional accountants in public practice will assist SMPs in understanding and applying the Code.</p> <p><i>(b) Regulators and Audit Oversight Bodies</i>              Not applicable.</p> <p><i>(c) Developing Nations</i>              Not applicable.</p> <p><i>(d) Translations</i>              Not applicable.</p>
7.	BDO*	<p>Section 260:</p> <p>R260.5 currently states, ‘The professional accountant shall apply this section regardless of the nature of the employing organization, including whether or not it is a public interest entity.’</p> <p>We would suggest it be simplified to, ‘The professional accountant shall apply this section for all employing organizations, including public interest entities.’</p> <p>260.6 A1 states, ‘A prohibition on alerting the client prior to....</p> <p>This was revised to ‘A prohibition on alerting the party prior to..’ in the Compilation of Proposed Restructured Code document.</p>

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		<p>We believe that this should be specific and would recommend 'A prohibition on alerting management of the employing organization prior to...'</p> <p>The titles for responsibilities of professional accountants have been revised to:</p> <ul style="list-style-type: none"> <li>• Responsibilities of Professional Accountants (in Business was deleted);</li> <li>• Responsibilities of Senior Professional Accountants in Business (in Business was not deleted); and</li> <li>• Responsibilities of Professional Accountants Other than Senior Professional Accountants in Business (in Business was not deleted).</li> </ul> <p>We believe it would be clearer if it was consistent with including or excluding 'in Business' and given that this is within the Professional Accountants in Business section of the Code, we believe it can be removed in all titles. We also believe it would also be clearer to note that the first set of responsibilities are for all professional accountants in business.</p> <p>Section 360:</p> <p>R360.5 – similar comment as in 260.5 above.</p> <p>R360.5 currently states, 'The professional accountant shall apply this section regardless of the nature of the client, including whether or not it is a public interest entity.'</p> <p>We would suggest it be simplified to, 'The professional accountant shall apply this section for all clients, including public interest entities.'</p> <p>R360.22 - the last line states, 'The predecessor accountant shall do so despite R320.11, unless prohibited by law or regulation.'</p> <p>Please note that the reference should be R320.10.</p> <p>In addition, we find this wording very confusing. Our understanding of this line is that if requested by the successor accountant and the client refuses to grant consent, we are required to disclose this information, unless prohibited by law or regulation. It would be clearer if this could be said in section 360. Please see our suggested edit.</p> <p>'The predecessor accountant shall do so, unless prohibited by law or regulation, even if the client fails or refuses to grant permission to the predecessor accountant to discuss the client's affairs with the proposed accountant (R320.10 (b)).'</p>

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		<p>Section 540 – Long Association</p> <p>A question has been raised within our firm related to the allowance for one additional year in rare cases due to unforeseen circumstances outside the firm’s control. Depending on when this occurs in a year, a one year extension may not be sufficient to address the audit of the client for that fiscal year. In a future project we would ask that you consider a potential extension so that the audit that occurs in that period could be completed.</p>
8.	CAANZ	<p>Chartered Accountants Australia and New Zealand is supportive of the proposed amendments to the Code. We commend IESBA for preparing the Compilation of Proposed Restructured Code, reference to this has been very useful in preparing our responses to the various Exposure Drafts. Reviewing the proposed Code in its entirety has highlighted that the Code is a very lengthy and at times repetitive document. As IESBA progress to the final version we encourage you to identify and remove repetitive and superfluous items, we believe this will enable the Code to be used more easily. We have responded to your questions in respect of the exposure draft in the attached Appendix.</p>
9.	CHI	<p>We welcome the Exposure Draft presented by IESBA and the efforts that IESBA is making to improve the understandability and usability of the Code. The presentation of the Code is much improved and the project appears to be achieving its desired aims.</p>
10.	CPAC	<p>We noted through our profession’s consultation, the considerable expectations and difficulty in consuming and responding to several exposure drafts and related documents simultaneously. Having said this, we also recognize the workload involved in IESBA’s estimated timetable to finalize a newly restructured Code for adoption in 2019. Respectfully, however, we suggest that extending longer comment periods when multiple exposure drafts are issued would enhance the ability of accounting bodies to conduct meaningful consultations with stakeholders, increase efficiency and enable more thorough responses.</p> <p>Generally, we support the proposals contained in the Exposure Draft and we found an overall view through our consultation efforts that the restructuring project was resulting in an overall improvement to the Code.</p>
11.	DTTL*	<p>The Board has substantially met the objectives of the restructuring established in Phase 1 of the project, however there are a number of areas that could use clarification.</p>

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12.	EYG	<p>We were and continue to be supportive of the overall approach agreed by the Board to reduce complexity and improve the clarity of the Code, including raising the visibility of the Code's requirements, clarifying who is responsible for compliance and clarifying the Code's language. However, we did raise a number of concerns during Phase 1 of this project, the most significant of which were the quality of the end product and the possibility for unintended changes in meaning of the Code.</p> <p>We have performed a detailed review of the draft Code currently under exposure and believe that the concerns we expressed during <i>Phase 1</i> have, to a major extent, been addressed. The majority of our detailed observations from our review of the Code relate to text that we believe could be further improved to enhance clarity or re-ordered to improve understandability. We have identified only a few instances where the revised text may potentially have resulted in an unintended change in meaning. Four specific questions were identified on which the Board welcomed respondents' views and we have organized our response accordingly. Our comments are set out below and in the Attachment – Detailed observations.</p> <p>a) Small and Medium Practices (SMPs) and PAIBs – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.</p> <p>(b) Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.</p> <p>(c) Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.</p> <p>No comments on (a) to (c) above.</p> <p>(d) Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.</p> <p>As included in our response to the <i>Proposed Revision Pertaining to Safeguards in the Code – Phase 2</i>, we believe that certain jurisdictions will be challenged to translate all documents relevant to the overall restructuring project in order to provide timely and wholesome comments. If, as anticipated, the Board completes the restructuring of the Code in December 2017, with the earliest effective date (for most</p>

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		sections) being 15th June 2019 this would present many professional bodies with a relatively short 18 month window in which to translate, obtain feedback and approve an entirely revised Code.
13.	FAR	<p>Before responding to the IESBA's request for specific comments, FAR would like to refer to the comments made a year ago on Phase 1 of the project. FAR is satisfied that some of the suggestions have been accommodated. However, FAR would like to underline that it is still difficult to determine whether IESBA's overall goal of increasing the Code's usability and understandability is achieved. This is, in FAR's opinion, mostly due to the excessive length of the Code that remains problematic in the context of accessibility for the individual professional accountant.</p> <p><b><i>(a) Small and Medium Practices (SMPs) and PAIBs –The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.</i></b></p> <p>In FAR's opinion, the changes probably do not make a big difference in making the Code more accessible to the SMPs and PAIBs, but it will add to their workload as they will be obliged to become familiar with the "new" Code.</p> <p><b><i>(b) Regulators and Audit Oversight Bodies</i></b></p> <p>Not applicable.</p> <p><b><i>(c) Developing Nations</i></b></p> <p>Not applicable.</p> <p><b><i>(d) Translations – Recognizing that many respondents may intend to translate the final pronouncements for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed changes.</i></b></p> <p>FAR foresees that a new translation of the entire Code will have to be made, but has no particular issues at this point.</p>
14.	FSR	Supports the general comments of Accountancy Europe.
15.	GTI*	<p>GTIL supports the Board's work on improving the structure of the Code and believes the restructuring will help enhance the clarity and usability of the Code.</p> <p>Understanding the Board is requesting comments on the structure of the Code, we would like to note that the threats listed in proposed Section 300.2 A1 and the safeguards listed in Section 300.2 A9 almost exclusively address objectivity and independence related threats (self-interest and self-review)</p>

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		<p>resulting from the provision of non-audit services. There does not appear to be clear threats and safeguards guidance and examples that address threats to the fundamental principles of integrity, professional competence and due care, and professional behavior.</p> <p>The business environment and the structure of audit firms are continually evolving. In order to strengthen the Code to help Professional Accountants deal with threats to the fundamental principles referenced above, we would recommend the Board consider adding examples of threats and safeguards to the Code, or even questions to help assess compliance with the fundamental principles as some other professional bodies have done, to assist Professional Accountants in performing a reasoned analysis in assessing adherence to all the fundamentals principles.</p>
16.	HICPA	We support the proposals in the Exposure Draft.
17.	ICAEW	<p>MAJOR POINTS</p> <ol style="list-style-type: none"> <li>1. We are generally supportive of the direction of travel and are pleased that some of our comments on the Phase 1 consultation have been taken up. However there are some major points outstanding that IESBA have not addressed in the Phase 2 consultation.</li> <li>2. The new definition of professional behaviour now reflects the discussion that was previously in 150.1. However we note that ‘avoid any action that the professional accountant knows or should know might discredit the profession’ is considerably wider than ‘avoid any action that discredits the profession’. It is not clear whether the definition has been changed to address the previous inconsistency between paragraph 100.5 and paragraph 150.1 or to address a perceived problem with the definition itself. We suggest that the definition itself remains as it was.</li> <li>3. We believe the change to the definition of “acceptable level” changes the application of the reasonable and informed third party test. Requesting a positive conclusion as to compliance with the principles is quite a lot to ask of a hypothetical person. The previous definition set out a clearer threshold for behaviour and specified ‘facts and circumstances available to the professional accountant’ which was a helpful addition.</li> <li>4. We agree with the decision to issue the restructured part 4B notwithstanding that it does not reflect the revised ISAE3000 – we are not aware that the existing discrepancy has led to problems. Nevertheless, this does look like there is a disconnect with IAASB and the matter should be addressed by IESBA/IAASB as a priority matter.</li> </ol>

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		<p>5. Given that the application date for all of the other changes proposed is June 15 2019 or periods commencing on or after that date as appropriate, it seems to be unnecessarily complex to introduce the long association provisions just six months earlier, complicating matters significantly for implementers who wish to maintain the IESBA timetable</p> <p>6. In addition to detailed comment under each question, we have included additional comments on phraseology and drafting in an Appendix.</p>
18.	ICAEW TAC	Generally the thoughts of the committee are consistent with those raised by the ICAEW's response under separate comments.
19.	ICAP	N/A
20.	ICAS	<p>We appreciate the work done by IESBA in relation to the re-structuring of the Code. However, the re-structuring process is complex and it is difficult to appropriately review the proposed changes. This may have led to matters being inadvertently missed. As such, it is suggested that IESBA devise a process so that if significant issues become apparent in the future they can be addressed quickly.</p> <p><b>a) OVERALL COMMENTS</b></p> <p><b>The Public Interest</b></p> <p>In our response to <i>'Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1'</i> we noted the following:</p> <p>“In terms of clarity, it would be a good opportunity to clarify what the professional accountant's responsibilities are in relation to the public interest. Some firms and others interpret the current text as if it is only the profession as a whole which has a specific responsibility to act in the public interest. However, the content of section 300.2 A6 would imply that the responsibility to act in (and not just consider) applies to the individual professional accountant i.e.</p> <p><i>“Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that professional accountants will act in the public interest.”</i></p> <p>We note in the <i>'Agreed in Principle Text – Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1 and Proposed Revisions Pertaining to Safeguards in the</i></p>

#	Respondent	Detailed Comment
		<p>Code – Phase 1’ that the sentence above has been amended (now paragraph 300.7 A5) and states the following:</p> <p><i>“Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that <del>professional accountants</del> <u>assurance team members</u> will act in the public interest. “</i></p> <p>We do not believe that this addresses our point above, and also the fundamental issue that it is not clear whether it is only the profession as a whole, rather than the individual professional accountant, which has specific responsibility to act in the public interest.</p> <p>We further note that in ‘Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2’ reference to a professional accountant having “responsibility to act in the public interest” is now stated in paragraph 100.1:</p> <p><i>“A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A professional accountant’s responsibility is not exclusively to satisfy the needs of an individual client or employing organization. <u>Therefore, the Code contains requirements and application material to enable accountants to meet their responsibility to act in the public interest.</u>”</i></p> <p>We note that this is also different wording from both the text of paragraph 100.1 of the Extant Code and Structure ED 1:</p> <p>Paragraph 100.1 Extant Text:</p> <p><i>“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.”</i></p> <p>Paragraph 100.1 as per Structure ED 1:</p> <p><i>“A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A professional accountant’s responsibility is not exclusively to satisfy the needs of an individual client or employer. Therefore, the Code contains requirements and</i></p>



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		<p><i>application material for accountants regarding matters that are integral to acting in the public interest.</i></p> <p>We also note that in “<i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2</i>”, reference to a professional accountant having a responsibility to act in the public interest is also reiterated in the first sentence of paragraph R200.5 A3: “<u>All professional accountants have a responsibility to act in the public interest</u>” and in 260.7 A1 “<i>A distinguishing mark of the <u>accountancy profession</u> is its acceptance of the responsibility to act in the public interest.</i>”</p> <p>Therefore, as per our original observation, we believe this would be a good opportunity to clarify in the Code what the professional accountant’s responsibilities are in relation to the public interest.</p> <p><b>Building block approach</b></p> <p>Although we are supportive of the re-structure project, we do, however, remain concerned about the length of the Code and believe this acts as a disincentive to the user. We would prefer a ‘building block’ approach that could be easily scalable. This would consist of a core block for all professional accountants accompanied by additional specific content for those involved in work in relation to PIEs. We believe that such an approach could be introduced by means of a proper electronic tool that enables, among other features, the distinction between provisions applicable to Public Interest Entities (PIEs) and non-PIEs.</p> <p>In relation to this specific Exposure Draft, we have two main issues and these are highlighted in our response to Question 1.</p> <p><b>Translations</b></p> <p>We have highlighted some concerns regarding translation above as follows:</p> <ol style="list-style-type: none"> <li>1. We note that in paragraph 11 of Guide to the Code in the ‘<i>Agreed in Principle Text – Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1 and Proposed Revisions Pertaining to Safeguards in the Code – Phase 1</i>’ explanation is now given as to the difference between ‘might’ and ‘may’ (this was not given in original restructuring ED). Is this a nuance which will get lost in translation?</li> </ol>

#	Respondent	Detailed Comment
		<p>Paragraph 10 in the Guide in <i>‘Agreed in Principle Text – Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1 and Proposed Revisions Pertaining to Safeguards in the Code – Phase 1’</i> text now says “In some situations the Code provides a specific exception to a requirement. In such a situation, the provision is designated with an “R” but uses “may” or conditional wording.”</p> <p>We would argue our point above, that the use of “might” or “may” could be lost in translation, making it unclear that compliance with the Code is required <u>unless</u> local laws or regulations preclude compliance with certain parts of the Code.</p> <p>2. <u>Paragraph 200.6A4</u></p> <p><i>“A professional accountant’s evaluation of the level of a threat might be impacted by the work environment within the employing organization and its operating environment. For example:</i></p> <ul style="list-style-type: none"> <li><i>• Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.</i></li> <li><i>• Policies and procedures to empower and encourage employees to communicate ethical issues that concern them to <b>senior levels</b> without fear of retribution.”</i></li> </ul> <p>Should “senior levels” not be better explained – “senior levels of management”?</p>
21.	IDW	<p><b>Support for the IESBA’s Restructuring Initiative</b></p> <p>We continue to support the proposed restructuring of the Code.</p> <p>As we stated in our previous letter of 18 April, 2016 concerning phase 1 of this project, we basically agree with the approach IESBA has taken to restructuring the Code. However, we continue to believe that ease of navigation could be improved further if certain changes were made to some Subsections, including the use of objectives and the use of additional cross referencing rather than repetition.</p> <p><b>Need for a Pre-Finalization Review for Consistency Purposes</b></p> <p>Given the volume of material, and the complex interaction of this project with other ongoing IESBA projects, the proposed restructuring of the Code has been progressed in a relatively short period of time. The Board and particularly IESBA staff are to be commended in this respect.</p> <p>In terms of drafting style it is evident that different individuals “held the pen” in regard to specific Sections of the Code. In addition, because the Board has been tasked with fitting material from the extant Code into a restructured format, for which it was not originally developed, there are inconsistencies and gaps in some areas. Whilst we comment on a few such matters in the appendix to</p>

#	Respondent	Detailed Comment
		<p>this letter, we believe a pre-finalization “consistency check” will be needed. Such an exercise may also reveal the need for the Board to address issues such as inconsistent coverage in a later stage project.</p> <p><b>Challenges to Parties Seeking to Comment</b></p> <p>The project’s division into two phases combined with the necessity for IESBA to work in parallel with several other ongoing projects has resulted in extreme difficulties for potential commenters wishing to orientate themselves. Indeed, without reference to the “Compilation of the proposed restructured Code” and “Basis for Agreement in Principle: Structure Phase 1” released in January 2017, review of the material issued in phase 2 would have been even more challenging, in regard to determining where the Sections and Subsections in this ED are to fit into the Code.</p> <p>Going forward, an overly complex approach to projects should be avoided wherever possible. We would strongly encourage the IESBA to bear in mind the capacities and resources within the community of interested parties who may wish to comment on papers such as this ED.</p> <p><b>Objectives to Support Requirements</b></p> <p>We agree that, on the whole, a clear delineation between actions that are both required and prohibited (requirements) from supporting text (application material) throughout the Code has been achieved. However, we are concerned that the IESBA did not take up the suggestion we had made in commenting on phase 1 in regard to the inclusion of “overarching objectives” to support requirements. We refer to pages 2 and 3 of our letter to the IESBA dated 18 April, 2016 in this context.</p> <p>In this context, we note that paragraph 11 of the “Basis for Agreement in Principle: Structure Phase 1” refers to overarching requirements and specific requirements, implying that IESBA supports the <i>concept</i> of an overarching objective, if not the terminology. Indeed, in reviewing the ED we noted that certain requirements (i.e., those that are in nature overarching) read more like objectives and that there are also instances of application material containing the phrase “objectives”. We refer to our response to question 2 in the appendix to this letter in respect to the latter. If IESBA does not act upon our suggestion to use the term “objective” for what the Board refers to as an overarching requirement, we believe it will be necessary to ensure consistent use of terminology throughout the Code.</p> <p><b>Significance of the Criterion “Reasonable Level” in Applying the Threats and Safeguards Approach</b></p> <p>Paragraph 120.2 contains key information (underlined below for identification purposes) supporting the overarching threefold requirement pertaining to threats to compliance with the Code’s fundamental principles:</p>

#	Respondent	Detailed Comment
		<p>(a) Identify threats to compliance with the fundamental principles;  (b) Evaluate the threats identified; and  (c) Address the threats <u>by eliminating or reducing them to an acceptable level</u>.</p> <p>Sections 1, 2 and 3 (and R400.12, and R900.16 specific to independence) each contain an overarching requirement governing their respective subsequent Sub-sections that summarizes these steps, but does not allude to the necessity to apply the criterion “acceptable level” in complying with this requirement:</p> <ul style="list-style-type: none"> <li>• <b>R120.3</b> The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.</li> <li>• <b>R200.5</b> A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.</li> <li>• <b>R300.4</b> A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.</li> </ul> <p>The explanation that the terms “evaluating” and “addressing” apply a criterion of “acceptable level” only really becomes clear from the requirements in R120.7 and R120.10 respectively.</p> <p>In our view, because of the significance of the criterion “acceptable level” to the application of the threats and safeguards approach, the Code needs to be far clearer and consistent in this regard. Our review of the ED revealed that although Sections 2 and 3 are clear as to the overarching requirement, coverage of the supporting requirements and application material is lacking or inconsistent. We appreciate that inconsistency is inevitable because this material results from the restructuring of extant text, which was not developed specifically for this purpose.</p> <p>Taking just Sections 2 and 3 as an example, we note that the accompanying application material in Section 2 covers <i>identifying</i> threats (200.6 A1) and <i>evaluating</i> threats (200.6 A2-A4), but lacks material specific to <i>addressing</i> threats. In Section 3, application material in 300.6, 300.7 and 300.8 deal with identifying, evaluating and addressing threats respectively; however the need to apply the criterion “acceptable level” is not clarified. As a minimum, and since it is key to the application of the Code’s threats and safeguards approach, we believe that the overarching requirements repeated in each key Section of the Code need to be expanded to clarify this aspect. In addition, consistent treatment would be helpful in this context in each of Sections 2 and 3.</p>

#	Respondent	Detailed Comment
		In our view, a follow-on project may be needed to identify and deal with any such “gaps” in the restructured Code.
22.	IRBA	<p>1.1. The IRBA supports the IESBA’s initiatives to improve understandability, enforceability and usability of the IESBA Code, thereby facilitating adoption, effective implementation and consistent application.</p> <p>1.2. As a regulator of registered auditors, with a statutory objective to protect the public, we are concerned with the enforceability of the Code. Likewise, we support initiatives that create an enabling environment for registered auditors to apply the Code. We believe that the Code is imperative in protecting the public interest, thus support initiatives that promote ease in understanding the Code. The lack of enforceability of the Code may have a negative impact on the level of adoption of the Code in new jurisdictions.</p> <p>1.3. While this exposure draft on the Code has been drafted in the context of professional accountants, our responses are provided in the context of registered auditors who perform audits, reviews and other assurance services.</p> <p>1.4. We believe that the proposed restructured Code is an improvement on the extant Code. However, we believe that additional work outside the scope of this Structure Project may need to be undertaken to achieve the full objectives of this exposure draft. To facilitate understandability and usability of the Code, more specific requirements are needed, especially in relation to those sections which do not contain any requirements.</p> <p>1.5. The IESBA could consider including a public sector perspective in the application material in the scope of the Code. This would be similar to the application material in the various International Auditing and Assurance Standards Board’s (IAASB) International Standards on Auditing (ISAs) relating to “Considerations Specific to Public Sector Entities”.</p> <p>1.6. The IRBA comment letter on the IESBA Safeguards Phase 2 project (attached) should be considered, especially with respect to comments on the structure of the Code.</p> <p>1. (a) Small and Medium Practices (SMPs) – The IESBA invites comments regarding the impact of the proposed changes for SMPs.</p>

#	Respondent	Detailed Comment
		<p>1.1. A big barrier faced by SMPs in complying fully with the Code is in understanding its requirements. Some users, especially those registered auditors whose first language is not English, experience difficulty in understanding the Code because of its complexity of language and construction.</p> <p>1.2. The introduction of the Guide to the Code and the differentiation between requirements and application material help make the Code clearer, easier to understand and will hopefully facilitate implementation of the Code.</p> <p>1.3. The introduction of requirements alongside a principle-based Code will be welcomed by SMPs as this will allow for scalability in differently sized practices.</p> <p>1.4. The lack of clarity on some important concepts in the extant Code as well as the restructured Code, e.g. the detail on documentation requirements, could make it especially difficult for SMPs as additional time and resources would be required for them to comply.</p> <p>2. (b) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular, on any foreseeable difficulties in applying them in their environment.</p> <p>2.1. In environments where the IAASB pronouncements and the Code have been adopted relatively recently, the need for clarity within the Code is of utmost importance. In developing nations, the limited experience of practitioners, standard-setters and regulators in the application of the Code makes the need for a clear structure and enforceability of the Code paramount. As such, we believe that further efforts can be made by the IESBA to achieve clarity and enforceability of the Code, e.g. clarification on the application of materiality in the Code.</p> <p>3. (c) Translations—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.</p> <p>3.1. No comment.</p>
23.	ISCA	Generally, we agree with all the suggestions in the ED and do not have significant comments or additional insights, except for the following specific question: <i>[see Supplement 2 to Agenda Item 3]</i>
24.	JICPA	English is not the official language in Japan, thus, it is inevitable to translate the Code from English to Japanese in an understandable manner. For this reason, we pay close attention to the wording used in

#	Respondent	Detailed Comment
		the Code in respect of whether it is translatable and comprehensible when translated. We therefore request the IESBA to avoid lengthy sentences and to use concise and easily understandable wording.
25.	KICPA	KICPA is a strong advocate of IESBA for your relentless efforts to increase the level of ethical standards that professional accountants are expected to perform and to serve the public interest by developing high-quality professional ethical standards.
26.	KPMG*	We continue to be supportive of the project and the intent to enhance the understandability and usability of the Code of Ethics for Professional Accountants (the Code).
27.	MIA	We commend the efforts of the International Ethics Standards Board for Accountants' ("IESBA") in developing the Exposure Draft based on the comments received on the Consultation Paper which was previously issued on the same topic.
28.	MICPA	N/A
29.	MNP	<p>We do not believe that the proposals in the above-mentioned ED have resulted in any unintended changes in meaning of any of the provisions. We believe that the proposals are consistent with the key features of the restructuring with the following exceptions:</p> <ul style="list-style-type: none"> <li>• The word "generally" should be removed from paragraph 210.8 A1 because its use implies that disclosure of a conflict of interest and the safeguards applied is optional. We believe that it is in the client's interests to disclose any actual or perceived conflicts of interest and how the professional accountant has managed such conflicts to accept or continue the professional service.</li> <li>• We recommend that the word "scheme", used in paragraph 260.20 A2 and in 360.25 A2, be defined in the guidance, as it is not a term commonly used by professional accountants and could be subject to misinterpretation.</li> </ul>
30.	NZAuASB	<p><u>Linkage to Conceptual Framework and Fundamental Principles</u></p> <p>Each section of the restructured Code includes a statement, "The professional accountant is required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats". As previously submitted by the NZAuASB, we continue to recommend that it would be even more helpful to link each sub-section to a fundamental principle. Such linkage will place an even greater emphasis on the overarching principle.</p>

#	Respondent	Detailed Comment
		<p>Use of the conceptual framework statement may bring the conceptual framework more to the front of mind, but linking each section to a fundamental principle makes it easier for a professional accountant to apply the conceptual framework, and to identify and evaluate the relevant threats.</p> <p><u>Meaning of “Audit Engagement”</u></p> <p>The NZAuASB continues to be concerned about the use of the collective term “audit” to include “review”. In New Zealand, as in most other jurisdictions, different standards are issued for audit engagements, compared to review engagements, which create a clear distinction between these two types of engagements. Indeed, this is also the case for standards issued by the International Auditing and Assurance Standards Board.</p> <p>Care needs to be taken when drafting requirements and guidance not to use audit centric wording when referring to both audit and review engagements. For example, in Part 4A of the Code, paragraph 600.5 A1 of Safeguards ED-2 discusses the concept of materiality and specifically references ISA 320, <i>Materiality in Planning and Performing an Audit</i>. However, there is no corresponding reference to ISRE 2400, <i>Engagements to Review Historical Financial Information</i>, which is equally relevant.</p> <p>The NZAuASB's preference is to refer separately to audit and review engagements, rather than using the term “audit” or “audit engagement” as shorthand. However, given the IESBA's current approach of using the collective term “audit”, we recommend that the IESBA review the Code to ensure that requirements and guidance apply equally to both audit and review engagements, particularly in Part 4A of the restructured Code.</p> <p><u>Cross-referencing of “required to” statements</u></p> <p>Wherever the Code uses the wording “...required to”, it would be helpful if a footnote referencing the original requirement (i.e., the “shall” statement) is included. Such referencing would assist the professional accountant when applying the Code, as professional accountants are unlikely to read the Code from cover to cover. Rather, in practice, a specific section or paragraph will be referred to that most closely deals with the ethical dilemma the professional accountant is facing. Such referencing would also assist the IESBA to ensure that wording is consistent with the original requirement. In addition, such cross-referencing will be helpful when the IESBA develops its electronic Code.</p> <p>For example, paragraph 240.4 A3 states, “As part of evaluating whether a threat created by financial interests is at an acceptable level, and, when necessary, in determining whether those threats are addressed, a professional accountant is required to evaluate the nature of the financial interest. ...” It is</p>



#	Respondent	Detailed Comment
		<p>not clear from the text of paragraph 240.4 A3 where in the Code the requirement to evaluate the nature of the financial interest sits.</p> <p>Further examples include:</p> <ul style="list-style-type: none"> <li>• Paragraph 120.12 A1<sup>2</sup>, “Professional accountants in public practice are required to be independent when performing audits, reviews, or other assurances engagements. ...”</li> <li>• Paragraph 120.12 A2<sup>3</sup>, ... “Professional accountants in public practice are required to comply with these standards in order to be independent, when conducting such engagements. ...”</li> <li>• Paragraph 300.14, “... Therefore, professional accountants in public practice are required to be alert for such facts and circumstances.”</li> </ul> <p><u>Paragraph numbering</u></p> <p>The NZAuASB is supportive of retaining the application material in close proximity to the requirement to which it relates, but notes that the paragraph numbering system is cumbersome and could be considered confusing. A simpler approach to paragraph numbering could be to number all paragraphs sequentially, while using the “R” designation to identify requirements.</p> <p>The complexity of the numbering system will be further exacerbated when national standard setters need to add material. For example, in New Zealand we might add requirements and/or application material to the Code to reflect the New Zealand legal and regulatory environment. When this is the case, an example of such numbering could be [NZ] 114.2 A1.1. Also, there are several application paragraphs that do not link to a requirement and several “R” paragraphs that do not contain requirement language. Further, the distinction between what comprises essential explanatory or introductory material versus application material seems vague. For example, section 910 deals with financial interests. Paragraphs 910.4 A1, 910.5 A1 and 910.6 A1 come under the heading “requirements and application material”, but could equally comprise part of the introductory material of the section as there is no specific requirement to which these application paragraphs relate.</p> <p>In formulating this response, the NZAuASB sought input from New Zealand constituents.</p>
31.	PWC*	<b>Principal comments</b>

<sup>2</sup> Compilation of Proposed Restructured Code as of January 2017, page 20

<sup>3</sup> Compilation of Proposed Restructured Code as of January 2017, page 21

<sup>4</sup> Compilation of Proposed Restructured Code as of January 2017, page 52

#	Respondent	Detailed Comment
		<p>We recognise the substantial amount of work and effort the Board has undertaken on this important project and, subject to a few matters that we discuss in the appendix to our response, believe that the proposed restructuring meets its objectives and applies the agreed drafting conventions.</p> <p><b>Detailed comments</b></p> <p>Detailed comments and observations are provided in the appendix. We recognise that some of these comments go beyond “restructuring” but we include them for completeness as the Board may wish to consider the point as it finalises the restructured Code. We also note, given the overlap with the “Safeguards” exposure draft, that some of these comments may be relevant to that project.</p>
32.	RSM International	<p>We continue to fully support efforts to by the Board to restructure the Code of Ethics for Professional Accountants (“Code”) to enhance its understandability and usability. We recognize that the restructuring of the Code requires an enormous amount of effort and that a significant amount of improvements have been made. We believe that these improvements will facilitate the adoption, effective implementation, consistent application, and enforcement of the Code.</p>
33.	SAICA	<p>a) Small and Medium Practices (SMPs) and PAIBs – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.</p> <p>No additional feedback although there may be challenges in implementing for smaller practices but the effective date does allow for ample time to implement</p> <p>b) Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.</p> <p>In SAICA’s view the amendments will enhance usability.</p> <p>c) Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.</p> <p>No further comments</p> <p>d) Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.</p>

#	Respondent	Detailed Comment
		No further comments as the Code is only used in English in South Africa currently.
34.	UKFRC	<p>The Phase 2 ED addresses parts of the Code that were not covered in Phase 1, including the sections on NOCLAR, long association and Part C that have been subject to separate revision projects. It also reflects conclusions drawn by IESBA after considering the responses to the Phase 1 ED. In preparing our response, we have considered the explanations in the 'Basis for Agreement in Principle' for Phase 1 and the 'Basis for Conclusions' for NOCLAR, long association and Part C. We note that the Explanatory Memorandum includes the statement that "IESBA does not intend to make changes to the Phase 1 agreed-in-principle text unless required to ensure consistency with the final text of Phase 2 of the Structure project".</p> <p>We have responded in the body of this letter to the specific questions asked by IESBA in this consultation. However, we also draw attention to a series of concerns outstanding from Phase 1, which we feel unless addressed, will mean that IESBA will not meet its aim to enhance understandability and usability of the code, and will prevent its effective implementation, consistent application and enforcement.</p> <p>These concerns, raised in our response to the Phase 1 ED and the consultations on NOCLAR, long association and Part C are:</p> <ul style="list-style-type: none"> <li>• Insufficient linkage between the fundamental principles and the detailed requirements</li> <li>• The lack of clarity of the responsibilities of individual accountants and firms</li> <li>• The lack clarity of some of the language</li> <li>• Consequent difficulties for enforceability of the Code</li> </ul> <p>In respect of the specific questions asked in the consultation we are supportive of IESBA's work to strengthen the Code. However, we have particular concerns in respect of:</p> <ul style="list-style-type: none"> <li>• The examples included in the ED which in some cases are more akin to a rules rather than principles based approach to standard setting, and in others are for the most part very high level and insufficiently practical to support practitioners</li> <li>• The lack of an overarching principle covering the preparation and presentation of information</li> <li>• Cooling off periods for long association which are, in our view, insufficient to address the familiarity risk posed to independence.</li> </ul>

		<p><b>Linkage between the fundamental principles and the detailed requirements</b></p> <p>We have continuing concerns relating to the absence of clear linkage between the fundamental principles and the detailed requirements. We strongly believe that a principles-based approach, which clearly establishes overarching ethical principles and supporting ethical provisions, supplemented by clearly linked requirements addressing particular circumstances, will result in better ethical and behavioural outcomes. This was one of the primary drivers behind our recent revision of the FRC's Ethical Standard, which brings together the results of the FRC's own review of ethical matters and implements the requirements of the EU Audit Directive and Regulation.</p> <p>Whilst we recognise that both the Guide to the Code and the revised structure do place greater emphasis on the fundamental principles and conceptual framework, we believe more should be done to clarify and emphasise the centrality of the fundamental principles in the conceptual framework, and establish an explicit linkage between the framework and the detailed requirements so that it is clearer how the requirements assist meeting the ethical outcomes. We do not believe this is achieved by simply repeating at the start of each Section that "professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats" and the subsequent short paragraphs that indicate which fundamental principles are threatened by the subject matter of the Section.</p> <p>We found it necessary, and believe the IESBA should do likewise, to clarify the <u>outcomes</u> that are necessary to act in accordance with the fundamental principles by setting supporting ethical provisions. We also cross refer the supporting ethical provisions to the detailed requirements that help achieve them, providing more clarity as to the interrelationships.</p> <p>There is a risk that by focusing on the requirements and application material presented in the Code, IESBA will drive a rules-based compliance mind-set rather than a principles-based focus on achieving appropriate ethical outcomes. In this respect, the Guide to the Code has a crucial role in providing users with a route map through the Code, and should contain more explanation of the purpose of the fundamental principles and the framework, as well as of the Code itself. This should emphasise the overall objective of achieving better ethical outcomes rather than simply following specific rules or establishing process. Under the heading 'How to use the Code' we again suggest the following alternative wording for paragraph 6:</p> <p><i>"The Code requires professional accountants to comply with the fundamental principles of professional ethics. These principles, together with supporting ethical requirements and application material, have the objective of focusing on the achievement of ethical outcomes in</i></p>
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#	Respondent	Detailed Comment
		<p><i>all circumstances. This will represent a basis for users of services to have trust in the integrity and objectivity of the professional accountant.”</i></p> <p><b>The clarity of the responsibilities of individual accountants and firms</b></p> <p>In our response to the Phase 1 ED, we identified that the senior management of the firm should have the overarching responsibility to ensure an appropriate ethical mind-set and culture. In our view, the clarity necessary to secure this is still lacking. We recommend that material is added in Section 120 to stress the fundamental importance of senior management in firms and other organisations taking an overarching responsibility to ensure that ethics and ethical outcomes are at the forefront of policies, procedures and culture within those entities. We also continue to believe further work is still needed to ensure that the Code is absolutely clear and unambiguous about who supporting requirements apply to.</p> <p>In the Phase 1 ‘Basis for Agreement in Principle’ IESBA identifies that some respondents had not supported the general use of the term ‘firm’ when responsibilities for compliance rests with individuals. However, many respondents did support “or accepted” the proposed use of the term ‘firm’ for ease of reference and IESBA reaffirmed its view that it is appropriate to continue on this basis. It is not clear how much explicit support there was for general use of the term ‘firm’ or whether some support is being assumed based on respondents being silent on the matter, but regardless it looks as though a decision has been made on the basis of numbers rather than reasoning.</p> <p>IESBA states that it has sought to introduce greater clarity by providing an explanation of the approach in Section 120. We have reviewed the “agreed in principle text” of Section 120 and cannot see where this explanation is. We note that paragraph 400.4 of Section 400 (Applying the Conceptual Framework to Independence for Audits and Reviews) includes the explanation that:</p> <p>“.... The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4A [Independence for Audits and Reviews] do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an audit team), in accordance with ISQC 1. In addition, individual professional accountants remain responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.”</p>

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		<p>As both a standard setter and regulator, we take the view that clarity of responsibilities is essential to facilitate effective implementation, consistent application and enforcement. Using a general term “for ease of reference” prevents this clarity being achieved.</p> <p><b>Clarity of language</b></p> <p><i>Persons in a position of influence</i></p> <p>In our response to the Phase 1 ED, we commented that, whilst we believe the current project has resulted in improvements to the clarity of language in the Code, we have concerns about the completeness and precision of some of the key terms being used. A particular issue we identified has not been addressed. Specifically, we believe it is inappropriate to define assurance, audit and review teams to include only individuals who are in a position to ‘<b>directly</b>’ influence the outcome of an engagement. This creates a risk that an ability to influence is seen purely as a structural consideration (related to the position of an individual in a firm), whereas instead the assessment should be driven by a consideration that captures <u>all</u> of those who have the <u>ability</u> to influence and are relevant to the engagement.</p> <p>Our response to the Safeguards Phase 2 ED also describes the related issue that the IAASB does not define “audit team” for the purpose of International Standards on Auditing (ISAs) but the IAASB (and IESBA) include “engagement team” as a defined term. The significant difference between the definitions of audit team and engagement team, and the fact that audit team is not an IAASB defined term, is unhelpful and risks inconsistent application of the terms, particularly by auditors who may be focussed on the definition of engagement team for the purpose of the ISAs.</p> <p><i>‘May’ vs ‘might’</i></p> <p>The term ‘may’ is used, and defined in the Glossary, to “denote <u>permission</u> to take a particular action in certain circumstances, including as an exception to a requirement”. The term ‘might’ is used, and defined in the Glossary, to “denote the possibility of a matter arising, an event occurring or a course of action being taken”. We agree that this reflects some common language usage of those terms. However, this use of ‘may’ in the Code is inconsistent with its use in ISAs where it does not denote “permission” but rather actions auditors might take. It would be helpful if IESBA and the IAASB could be consistent in their use of terminology.</p>

		<p><i>Audit includes review</i></p> <p>The ‘Basis for Agreement in Principle’ for Phase 1 indicates that there was widespread support for the term ‘audit’ to be taken to include ‘review’ and therefore IESBA is keeping that position. We continue to believe this is inappropriate as, regardless of whether the ethical considerations are essentially the same, it is a simple fact that an audit is not a review. Recognising there had been some objection, IESBA notes that “adopting organisations, if they so wished, could choose to distinguish “audit” and “review” separately in their versions of the Code”. However, advising that the Code can be modified, in effect to make it technically correct, does not encourage its adoption and risks inconsistencies arising that may affect its application and enforcement.</p> <p>We struggle to understand IESBA’s position as this is not an overly complicated matter to address. In the course of our revision of the FRC Ethical Standard we addressed a similar issue by referring generically to ‘engagements’ whilst being precise about the specific application to different types of engagement (whether audit or not) where they differed. Our standard is designed to apply to all engagements for which we issue performance standards (and so is broader in scope than audit and review engagements).</p> <p><i>Defined terms</i></p> <p>In connection with the discussion of ‘audit includes review’, the ‘Basis for Agreement in Principle’ for Phase 1 indicates that certain terms should be included in both the Glossary and the body of the Code; and that descriptions would be included in the body of Code when they first appeared rather than being denoted by footnote. This will only help understanding of those terms if someone referring to the Code starts at or before where the description is given – if they start later they may not appreciate that particular terms have a defined meaning. In our revised Ethical Standard we have addressed this by presenting defined terms in italics to alert readers that there is a defined meaning.</p> <p><b>Enforceability of the Code</b></p> <p>We support a principles based approach to ethics and, where appropriate, application of the threats and safeguards approach in the Code. However, we believe there are areas where the Code needs to be stronger in recognising that particular circumstances “will”, rather than “might”, create threats and that in some situations no safeguards will be capable of reducing the threats to an “acceptable level”. This is particularly important if IESBA is to facilitate consistent application and enforcement of the Code. Please also refer to our response to the Safeguards Phase 2 ED which explains concerns we have with the use of “acceptable level”<sup>5</sup>.</p>
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#	Respondent	Detailed Comment
		<p>In our response to the Phase 1 ED we identified that, while there are sections in the Code in which it is stated that a circumstance or transaction creates a threat, there are numerous sections where the Code only states that a circumstance or transaction “might” create a threat. We remain concerned that there is still insufficient presumption in some sections that a threat is created by particular circumstances which must be evaluated and (when appropriate or possible) safeguards applied. For example, paragraphs 340.2, 340.4.A1 and 420.1 indicate that an offer of gifts or hospitality from a client, or accepting gifts or hospitality from an audit client, might create self-interest, familiarity or other threats. We believe the presumption should be that “accepting gifts or hospitality creates self-interest and familiarity threats”.</p> <p>We have a similar concern in relation to Section 411, which addresses compensation and evaluation policies, that has only been partly resolved by adopting very generic wording, rather than describing a specific circumstance, that “a firm’s evaluation or compensation policies might create self-interest threats”. Section 411 recognises (paragraph 411.4. A1) that self-interest threats arise when an audit team member for a particular audit is evaluated on or compensated for selling non-assurance services to that audit client. However, the requirement in paragraph R411.5 to preclude evaluating or compensating someone on this basis applies only a key audit partner and not to other members of the audit team. IESBA takes a position that evaluation and compensation on the basis of selling non-audit services to an audit client is acceptable for an audit team member, other than a key audit partner, if a safeguard is applied such as “having a professional accountant review the work of audit team member”. We believe this is a weak position for IESBA to take, and risks firms establishing policies that a regulator (and other stakeholders) would consider inappropriate.</p> <p>By contrast, the EU Audit Directive requires that “the amount of revenue that the statutory auditor or the audit firm derives from providing non-audit services to the audited entity shall not form part of the performance evaluation and remuneration of <u>any person</u> involved in, or able to influence the carrying out of, the audit”. The Directive requirement is reflected in our Ethical Standard and we strongly recommend that IESBA should conform to the EU position. If IESBA does not do this it should at least stipulate that the professional accountant undertaking the review should be independent of the audit team and, importantly, that the level of threat should be reduced to one where an objective, reasonable and informed third party would not consider the independence of the audit team member to be compromised.</p>

<sup>5</sup> <https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/FRC-Response-to-IESBA's-Consultation-on-Safeguards.pdf>



#	Respondent	Detailed Comment
35.	WPK	<p>We welcome the overall result of the extensive project to restructure the Code. We believe that the proposed restructuring enhances the understandability and usability of the Code, thereby facilitating its adoption, effective implementation, consistent application, and enforcement. We also believe that the proposals are consistent with the key elements of the restructuring as described in the Explanatory Memorandum.</p> <p>Nevertheless we hear from our members that it has become increasingly difficult to keep up with the pace of changes which the Code has undergone over the last couple of years. The profession does urgently need time to digest the changes in order to carry out corresponding implementation measures within their firms. The same is true for IFAC’s member organizations as most of them need to translate the changes in a first step before being able to display efforts as to how to implement the changes in their respective national laws. Particularly the latter process is usually time-consuming since it requires an involvement of the relevant stakeholders and is usually subject to an approval process by an oversight authority. When the Standard Setting Boards need many years for the finalization of new standards, the stakeholders cannot be expected to implement these standards in only a fraction of that time period.</p> <p>As mentioned in our comment letter to ‘Restructuring Phase 1’, we deem the restructuring of the Code as only one component among others to enhance its adoption. From our point of view the decisive factor for its acceptability is quality. The quality derives of course from clarity and understandability but as well from adequacy and practicability of the requirements. In this context we think it is not advisable if the quality of the Code seems to be increasingly measured by whether it is easily enforceable. We doubt that such an approach is appropriate to promote compliant behaviour with the fundamental principles of the Code.</p>