

Structure of the Code – Phase 2 Highlights of Comments*

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IESBA Meeting

New York, USA

June 19-21, 2017

**[The Task Force's presentation will include preliminary proposals and an updated set of slides will be provided during the meeting.]*

Agenda Item 3 – Structure of the Code

How Project Serves the Public Interest

- Enhance understandability and improve usability, facilitating
 - Compliance & enforcement
 - Adoption
 - Effective implementation & consistent application

Key Features of the Restructuring

- Enhanced understandability, improved usability
- Serving the public interest, responsive to stakeholders
 - Requirements distinguished from guidance
 - Increased prominence of principles and the conceptual framework
 - Increased clarity of responsibility
 - IAASB ISQC 1 Task Force considering further clarification
 - Increased clarity of language, improving readability

Other Features of Restructuring

- New title to emphasize key features
- Guide to the Code
- More self-contained sections
- Careful to avoid inadvertent changes in meaning
- Careful to avoid any weakening of the Code
- Various matters outside scope noted for Board attention

Background

- January 2013 – Working Group began research
- April 2014 – Project approved
- November 2014 – Consultation Paper issued
- December 2015 – Exposure Draft (Phase 1) issued
- April 2016 – Comment period ended
- January 2017 – Exposure Draft (Phase 2) issued
- May 2017 – Comment period ended

Respondents to Structure ED-2

Category	Number
Regulators and Oversight Authorities	3
National Standards Setters	2
Firms	9
IFAC Member Bodies & Other Prof. Orgs.	23
Total (some responses reflect group input)	37

Objectives of Agenda Item

- To consider highlights of comments on Structure ED-2
- To provide an opportunity for initial input on responses (additional opportunity will be available in September)

[Slides will be updated for the June 2017 Board presentation with Task Force's preliminary comments and proposals]

Overview of Comments Received

- Widespread support for the Phase 2 proposals
- Some comments that could or should further improve the Code
- Many helpful wording suggestions to increase consistency and avoid possible inadvertent changes in meaning
- Some comments related to Phase 1 decisions
- Some comments related to matters outside scope of the project
 - Referred to another task force or the Board, as appropriate
- Effective date – some accepted; others prefer all at one date

Phase 2 – Highlights of Comments

- Some noted drafting inconsistencies between the Parts
- NOCLAR and S.540 – some question Code's clarity if FAQs
- S.540 – some suggest it be effective with rest of the Code
- S.600 – subsection introductions repetitive, lengthen Code
- S.600 – “firm” not always accompanied by “network firm”
- S.600 – question “may” vs. “might” re likelihood of threats
- Wording suggestions will be addressed in September

Phase 1 – Clarity of Requirements

- Sections cannot be read in isolation
 - Introductions lengthen the Code and are not requirements
- The Code appears more rules-based
 - Create a more explicit link to clear ethical outcomes
 - Emphasize that compliance with specific requirements is not necessarily compliance with the overarching requirements
- Some requirements explicitly reference application material

Phase 1 – Clarity of Responsibility

- Some believe further work is needed to clarify responsibility
- In S.120, consider an explanation of the approach taken to deal with responsibility (i.e., as set out in 400.4)
- Some concern that senior management's responsibility for an ethical mind-set is not mentioned in the Code
- Recognize that some requirements apply to individuals

Phase 1 – Other Matters

- Consider scalability
- Consider headings, sub-headings and numbering
- Some concern with disproportionate outcomes and ethical conflict resolution (100.3A2 and 110.3A1-A2)
- Some concern with simply stating in 400.2 that the term audit applies equally to review, and Part 4A applies to both
- Consider including the requirement to be independent in S.120 and avoid repeating the independence definition

Matters Outside Project Scope

- Matters previously to the Board
 - The public interest
 - Documentation
 - Alignment of terminology and coordination of other matters across standards-setting boards
 - Alignment of proposed Section 900 with ISAE 3000

Matters Outside Project Scope

- New matters noted for IESBA Consideration
 - Consider revising the definition of engagement period and the requirements of R400.31
 - Consider revising the standards for close family, making them the same as those for immediate family
 - Some sections have no specific requirements
 - Consider whether any exceptions weaken requirements
 - For PIEs, consider whether independence standards for other assurance engagements should be the same as for audits

Next Steps

- September – wording, including changes in meaning
- December – approve restructured Code
- After approval – develop electronic enhancements and tools
- Early consideration of implementation issues encouraged



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