

Structure of the Code — Issues and 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, facilitating compliance by professional accountants and enforcement by regulators; and
- Improving the usability of the Code, thereby facilitating adoption, effective implementation and consistent application.

How this Paper is Organized

This paper comprises the following:

- I. Background
- II. Draft Restructured Code and Preface
- III. Drafting Guidelines

I. Background

1. Stakeholders have provided extensive input throughout this project. The Working Group's initial research involved interviews with a broad cross section of stakeholders, including: the IESBA Consultative Advisory Group (CAG), the International Organization of Securities Commissions (IOSCO), national standard setters, the Forum of Firms, and the IFAC Small and Medium Practitioner (SMP) Committee. The [November 2014](#) Consultation Paper (CP) further informed the project.
2. The highlights of the restructuring include:
 - Requirements distinguished – separate paragraphs identified with 'R'.
 - Increased prominence of the requirement to apply the conceptual framework and comply with the fundamental principles.
 - Increased clarity of responsibility through reduced use of the passive voice.
 - Increased clarity of language.
3. Additional aspects of the restructuring are as follows:
 - New material on how to use the Code.
 - A new title, which remains to be determined.
 - Organization of the material into sections and subsections:
 - Related topics being grouped.
 - Revised numbering to facilitate revisions.
 - Guidance positioned next to the relevant requirements – guidance paragraphs identified with 'G'.
 - Independence sections moved to the end of the Code and more sub-headings to facilitate navigation.

- Drafting guidelines prepared as a tool for this and other current and future task forces.
4. The Task Force has made significant effort to avoid changes in the meaning of the Code. It has sought to avoid any reduction in requirements or other weakening of the Code. The potential for inadvertent changes in meaning is being closely monitored by using a mapping table to track the disposition of the changes to the Code.

II. Draft Restructured Code and Preface

Draft Restructured Code

Significant Enhancements to the Draft Restructured Code

5. The draft restructured Code presented in Agenda Items 2-B, 2-D and 2-F includes several enhancements following input from the Board and the plain English editor, and the Task Force's review. In particular, the Task Force has sought to raise the visibility of the requirements. The enhancements include:

- The term “core requirement” is no longer used and has been replaced by a single requirement in each section to apply the conceptual framework.
- Increased prominence of the requirement to apply the conceptual framework.
- The header of each page contains a cross reference to the requirement in Section 110 to apply the conceptual framework.
- “Related application material” has been renamed “guidance” with a corresponding change in the notation of it in the text:

R400.1	Requirement
400.1 G1	Guidance paragraph

- Inconsistency in the language relating to the fundamental principles and conceptual framework has been addressed.
- “Terms Used” has been incorporated within “Scope.”

“Half-Requirements”

6. The Task Force has identified a number of “half-requirements” in the extant Code. These are statements which are not phrased as “shall” statements. Rather, they are actions that are generally, but not always, necessary. There are four examples of these “half-requirements” in the draft restructured Code being presented to the Board: paragraphs 310.8 G1, 310.8 G3, 340.2 G1 and 400.7. For the purposes of illustration, an extract of paragraph 310.8 G3 is set out below:

310.8 G 3 It is usually necessary:

- *To disclose the nature of the conflict of interest and any related safeguards to clients affected by the conflict; and...*

The “half-requirements” are currently within the guidance sections of the draft restructured Code. The Task Force welcomes input from IESBA members on whether they should be treated as guidance.

Matters for Consideration

1. Do IESBA members agree that “half-requirements” should be retained as guidance rather than being elevated to requirements by use of a “shall” statement?
2. If so, do IESBA members believe that additional guidance should be provided to facilitate the exercise of professional judgment?

Review of the Draft Restructured Code

7. The draft restructured Code presented in Agenda Items 2-B, 2-D and 2-F is the first tranche of the draft restructured Code that has been reviewed not only by the Task Force but also by a plain English editor. The editor critically reviewed both the structure and drafting of the Code. The Task Force adopted those editorial suggestions that it believed had merit but did not adopt those suggestions where they were perceived to change or potentially change meaning.
8. The Task Force has reviewed the mapping tables presented in Agenda Items 2-C, 2-E and 2-G. Comments have been included in the margins where appropriate. The Task Force Chair does not intend to refer to them expressly during the meeting.
9. The Task Force is particularly interested in receiving comments on the draft restructured Code from IESBA members in advance of this Board meeting (likewise for the September and December 2015 Board meetings). It has scheduled meetings on the Sunday before each of these meetings for a detailed review of any advance comments IESBA members may provide. The Task Force believes that this working process will facilitate a more efficient review of the draft restructured Code at the Board meetings. Responses that are not received in advance of this meeting and the September meeting may have to be deferred to the following meeting.

Matter for Consideration

3. IESBA members are asked for views on the draft restructured Code in Agenda Items 2-B, 2-D and 2-F.

Preface

10. Since the release of the CP in November 2015, the Task Force has been further developing a revised Preface to the draft restructured Code. The proposed Preface contains some paragraphs which are derived from the extant Code. It is included in Appendix 1 and will be sent to the plain English editor for review after the September 2015 meeting.
11. When the Working Group conducted its pre-project research, it received feedback from stakeholders that the Code would benefit from enhanced explanatory material addressing use of the Code. Accordingly, the proposed Preface contains the following sections:
 - The authority statements from the existing Code.
 - How to use this Code.
 - The structure of the Code in text and chart formats.
 - Appendices explaining the structure of the Parts of the Code and an illustration of their components.
12. The Task Force regards the Preface as an opportunity to fundamentally enhance a user’s ability to quickly understand the concepts used within the Code. The Task Force is seeking Board feedback on the current draft.

Matter for Consideration

4. Do IESBA members have any comments or suggestions for the enhancement of the proposed Preface?

III. Drafting Guidelines

13. The drafting guidelines have been updated to reflect changes to the drafting style resulting from input from the editor. The guidelines have been shared with the staff teams who are working on the drafting of other sections of the Code. They are included as Agenda Item 2-I.

Matter for Consideration

5. The Task Force welcomes comments from IESBA members on the revised drafting guidelines.

Proposed Preface

This Preface is Structured as follows:

References	Content	Page No.
Paragraphs 1-3	Authority Statements	1
Paragraphs 4-11	How to Use this Code	1
Appendix 1	Structure of this Code	6
Appendix 2A	Structure of Parts of this Code	8
Appendix 2B	Components of Parts and Sections of this Code	9
Appendix 3	The Structure of the Sections within this Code	10

Authority Statements

1. The IESBA develops and issues, under its own authority, the *Code of Ethics for Professional Accountants* (the Code) for use by professional accountants around the world.
2. A Member body of IFAC or firm shall not apply less stringent standards than those stated in this Code. However, if a member body or firm is prohibited from complying with certain parts of this Code by law or regulation, they shall comply with all other parts of this Code.
3. Some jurisdictions may have requirements and guidance that differ from those contained in this Code. Professional accountants in those jurisdictions need to be aware of those differences and comply with the more stringent requirements and guidance unless prohibited by law or regulation.

How to Use This Code

The Fundamental Principles Used in This Code

4. The IESBA Code of Ethics contains five fundamental principles, applies a conceptual framework approach, and identifies typical threats and safeguards. An understanding of all of these elements of the Code is essential to an understanding and ability to use the Code. The fundamental principles are as follows:
 - Integrity.
 - Objectivity.
 - Professional Competence and Due Care.
 - Confidentiality.
 - Professional Behavior.
5. The fundamental principles are first described in Section 110.

The Conceptual Framework Approach

6. The conceptual framework approach assists professional accountants in complying with the ethical requirements of the Code. It is important because it accommodates many variations in circumstances that create threats to compliance with the fundamental principles. This approach requires professional accountants to identify, evaluate and address threats and either apply safeguards when necessary to eliminate or reduce threats to an acceptable level, or decline or discontinue a professional engagement, disassociate from relevant work, or when necessary, resign from the engagement or from the organization employing the professional accountant.
7. Although some provisions of Parts B and C require that the professional accountants avoid specific circumstances or relationships creating threats, the conceptual framework requires professional accountants to consider potential threats created by other circumstances or relationships that may not be specifically addressed by the Code
8. A professional accountant or firm may encounter unusual circumstances regarding the application of the Code. This might occur when the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest. If such circumstances apply, the professional accountant is advised to consult with a professional regulatory body or another relevant regulator.
9. The conceptual framework approach is first described in Section 110.

The Threats Referred to in this Code

10. The IESBA Code of Ethics contains five forms of threats to compliance with the fundamental principles:
 - Self-interest.
 - Self-review.
 - Advocacy.
 - Familiarity.
 - Intimidation.
11. The threats are first described in Section 110.

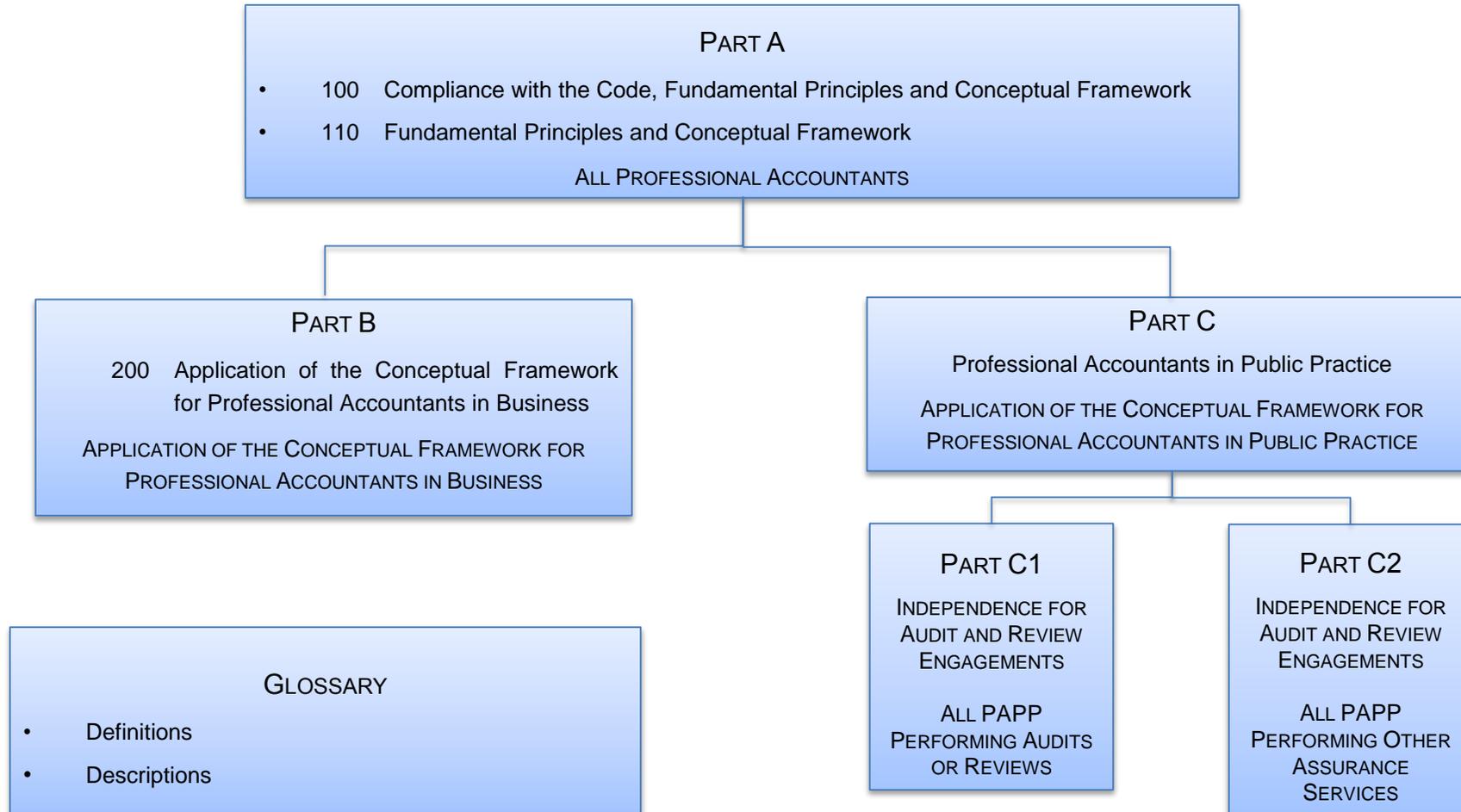
The Safeguards Referred to in this Code

12. Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. They fall into two broad categories, namely those created by the profession, legislation or regulation and those in the work environment.
13. Safeguards are first described in paragraph 110.

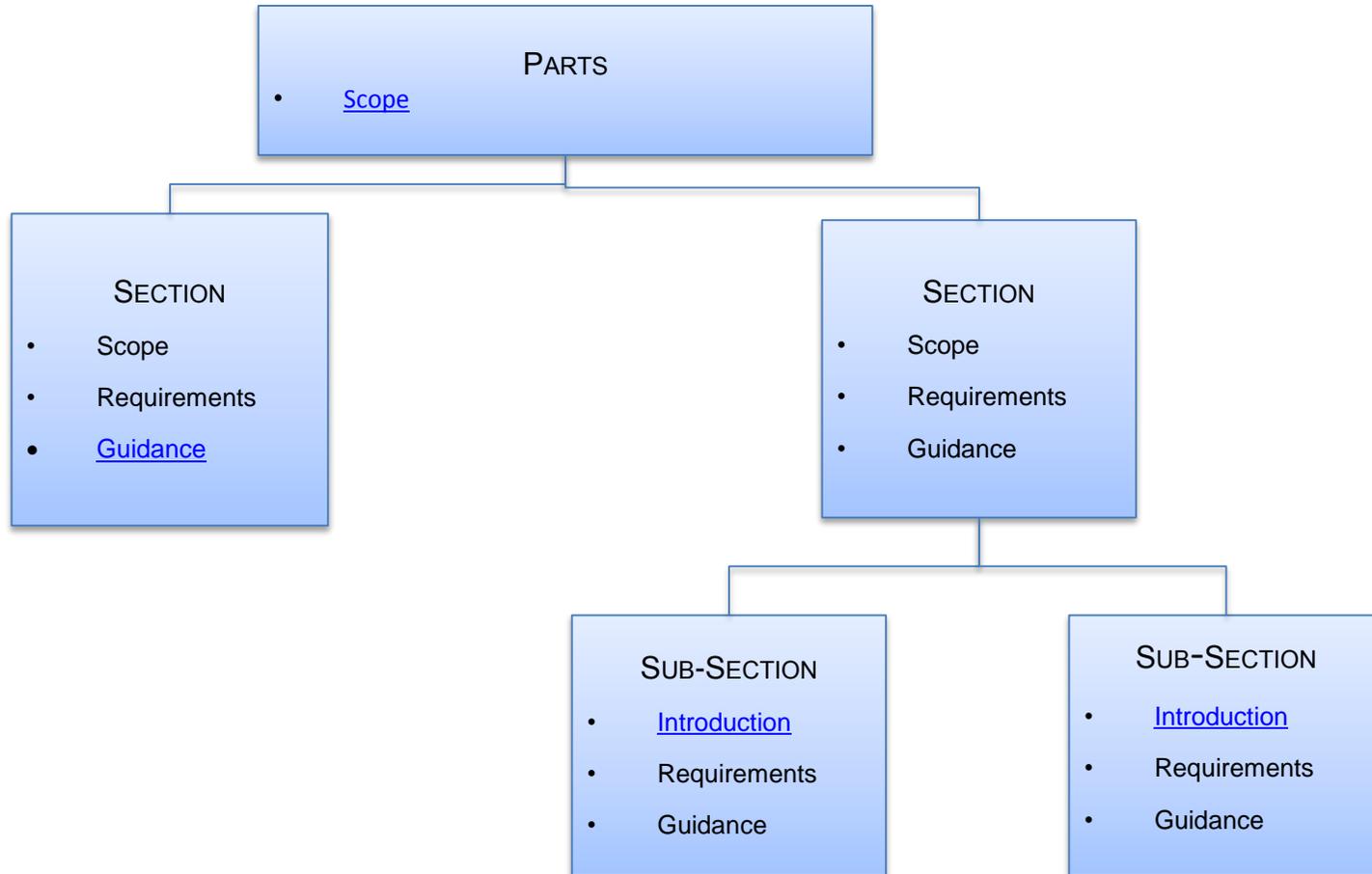
Structure of this Code

1. This Code contains three parts:
 - Part A – General Application of the Code
 - Part B – Professional Accountants in Business
 - Part C – Professional Accountants in Public Practice
 - Part C1 – Independence for Audit and Review Engagements
 - Part C2 – Independence in Relation to Other Assurance Engagements
2. These parts are illustrated in Appendix 2A.
3. Part A establishes the fundamental principles of professional ethics for professional accountants. It also provides a conceptual framework that firms and professional accountants, using professional judgment, are required to apply.
4. Parts B and C describe how the conceptual framework applies in certain situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. They also describe situations where safeguards are not available to address the threats, and consequently require that the circumstance or relationship creating the threats be avoided. Part B applies to professional accountants in business. Part C applies to firms and professional accountants in public practice. Professional accountants in public practice may also find Part B relevant to their particular circumstances.
5. Each Part of this Code is divided into Sections organized by topic area. The Sections are subdivided into scope, requirements and guidance.
6. The Scope component includes introductory comments to broadly describe the context in which the requirements are to be read. It is not to be read as creating any requirements in itself. The language is intentionally broad.
7. Requirements and guidance are organized within each topic area. They include requirements, designated by “R###.##” by topic, followed by guidance (where applicable). Guidance is designated as “###.## G#”, For example, Section 340, *Gifts and Hospitality* includes a requirement set out as “R340.2” followed by guidance set out as “R340.2 G1 and R340.2 G1.”
8. The use of the word “shall” in this Code imposes a requirement on the professional accountant or firm to comply with the specific provision in which “shall” has been used. Compliance is required unless an exception is permitted by this Code.
9. To assist users of the Code:
 - The composition of Sections is illustrated in Appendix 2B.
 - The structure of the Sections and the topics that they contain is described in Appendix 3.

Structure of the Parts of this Code



Components of Parts and Sections



Explanation of Components

- Scope – sets out the subject matter addressed within the Part or Section including “Terms Used” – an explanation of terms that have a specific meaning in that Part, Section or Sub-Section
- Requirements:
 - (a) Emphasizing the need for compliance with the fundamental principles through applying the conceptual framework, accompanied by guidance; or
 - (b) Relating to the application of the conceptual framework to the subject matter addressed, including any specific prohibitions that may arise, accompanied by guidance.
- Introduction – material relevant to the application of the requirements of the material addressed in sub-sections, where the scope is set out in the overarching section.

Appendix 3

The Structure of the Sections and Subsections within this Code

Preface			Authority Statements
			How to Use this Code
			Structure of this Code
Part A Fundamental Principles and Conceptual Framework		100	Compliance with the Code, Fundamental Principles and Conceptual Framework
		110	Fundamental Principles and Conceptual Framework 111 Integrity 112 Objectivity 113 Professional Competence and Due Care 114 Confidentiality 115 Professional Behavior
Part B Professional Accountants in Business		200	To be determined
Part C Professional Accountants in Public Practice	Part C1 Application of the Conceptual Framework for Professional Accountants in Public Practice	300	Application of the Conceptual Framework for Professional Accountants in Public Practice
		310	Conflicts of interest
		320	Professional appointment
		330	Fees and remuneration
		340	Gifts and hospitality
		350	Custody of client assets
	Part C2 Independence for Audit and Review Engagements	400	Application of Conceptual Framework to Independence for Audits and Reviews 401 Breach of an Independence Provision

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		410	Fees and Compensation 411 Fees – Relative Size 412 Fees – Overdue 413 Contingent Fees 414 Compensation
		420	Gifts and Hospitality
		430	Actual or Threatened Litigation
		500	Independence: Relationships
		510	Financial Relationships 511 Financial Interests 512 Loans and Guarantees
		520	Other Relationships 521 Business Relationships 522 Family and Personal Relationships 523 Employment with an Audit Client 524 Temporary Staff Assignments 525 Recent Service with an Audit Client 526 Serving as an Officer or Director of an Audit Client
		530	Long Association of Personnel with an Audit Client
		600	Independence: Non Assurance Services 601 Management Responsibility 602 Preparing Accounting Records and Financial Statements 603 Valuation Services 604 Taxation Services 605 Internal Audit Services 606 IT Systems Services 607 Litigation Support Services

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			608 Legal Services 609 Recruiting Services 610 Corporate Finance Services
	Part C3 Independence: Other Assurance Engagements	700	To be determined