

Mr. Ken Siong  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

4 February 2014

Dear Mr. Siong:

## **Improving the Structure of the Code of Ethics for Professional Accountants**

We are pleased to comment on the Exposure Draft, *Improving the Structure of the Code of Ethics for Professional Accountants*.

We fully support changes to the Code that will make it more understandable and enforceable, and generally we agree with the stated objectives of raising the visibility of the Code's requirements, clarifying who is responsible for compliance and clarifying the language in the Code. Further, we understand that, as stated in the Exposure Draft, "it is not the purpose of the project to change the meaning of the Code." However, the Exposure Draft also states that the Board intends to write "simpler and shorter sentences" and to avoid where possible the use of "legalistic and archaic terms, nuances, and superfluous adjectives."

We are concerned that the process of restructuring and redrafting the Code using new words, and omitting existing words, may well result in substantive changes being made, notwithstanding the Board's intentions to the contrary. For instance, some words that may seem to be "legalistic" and certain "nuances" may actually be important for the appropriate understanding and application of the Code's provisions. It is for this reason that we urge the Board to approach this project cautiously. We are concerned that, given the due process that the Board must follow and the limited resources that are available to support the Board, the proposed timeline for this project may be overly aggressive and could contribute to increasing the potential for substantive changes being inadvertently made. The project timeline should allow sufficient time not only for careful drafting but also for careful review by stakeholders. In this connection, we also believe a phased or rolling approach for exposing re-structured content would likely be preferable to exposing the Code in its entirety at one time. This approach will help ensure that the stated objectives of this project are being met by allowing key stakeholder feedback to be incorporated as the Code is being re-structured and would contribute to the ultimate success of this initiative.

We also ask the Board to ensure that appropriate due process be provided in connection with the promulgation of any new requirements that might emerge as a result of this project. The consultation paper does state that any new substantive changes to the Code will be subject to the Board's normal due process, but it is unclear whether this will occur as part of this current project or will be the subject of a separate project. The discussion on responsibility contained in the consultation suggests that the intention of the Board is to address proposed new requirements within this current project. If that approach is taken, the new requirements may not be subject to adequate discussion and analysis. Accordingly, we recommend that new requirements in the Code be considered as part of a separate and distinct project or projects to ensure a very clear delineation of structural changes versus new requirements and to ensure that the appropriate level of attention by the Board and by stakeholders is placed on such changes.

Ten specific questions were identified on which the Board welcomed respondents' views and we have organized our response accordingly. Our comments are set out below.

### ***Questions for respondents***

**1. Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples, would be likely to achieve IESBA's objective of making the Code more understandable? If not, why not and what other approaches might be taken?**

As mentioned above, we are supportive of the objectives of this project as articulated by the Board. We agree with changes to the Code that will make the language more concise and direct and support a reorganization that will enhance ease of use and highlight for users the distinctions between requirements and other interpretive material. The Illustrative Examples show some movement towards achieving these objectives. However, we do have some observations and suggestions on the exposed structure which we ask the Board to consider.

We agree with the introduction of the new section *How to Use the Code*. Regardless of the final product that results from this project, we see the value in a section that helps the user navigate and apply the Code. We also agree with the idea of simpler language and clear delineations between requirements and examples or other interpretive material. However, in our view the language and structure used in the Illustrative Examples did not appear to achieve the Board's stated objective of improving the usability of the Code and in many respects resulted in a more cumbersome and less accessible Code than the extant version.

More specifically:

- a) While we support a clearer delineation between requirements and guidance, we do not see great benefit in clearly separating requirements from application guidance and other interpretive material. Such a separation can be useful when there is a relatively large volume of text on each subject such as in the ISAs. In Section 290

*Independence—Audit and Review Engagements* there are 38 sections of which only seven are longer than six paragraphs. Separating requirements from application guidance for each section, as proposed by the Board, when the amount of text involved is relatively limited, can reduce clarity and usability rather than increase it. For example, the illustrative new section on Business Relationships has been lengthened to 923 words, as compared with the extant section in the Code which contains 535 words, without the addition of new requirements or guidance. In addition, this illustrative section has become overly structured with 14 headings and sub-headings for only eight paragraphs. The proposed new framework, in our view, has made the content less accessible and less easy to follow than the extant section on Business Relationships.

- b) We do not find useful the repetition of commonly used definitions, fundamental principles and the conceptual framework in every section. This content should be located in specific sections of the Code, as they currently are, and not repeated in every section.
- c) Visually we found the proposed use of various fonts and styles to highlight defined terms to be a distraction. We do not see a need for highlighting such terms and do not see similar highlighting in existing standards and regulations promulgated by other standards setters. It is important that key terms are defined or explained but we see no benefit from highlighting every such term in the text.

We understand that in its deliberations the Board considered the use of bold text to highlight requirements but dismissed it as an alternative. Such an approach, which we would support, is used by the UK's independent regulator, the Financial Reporting Council (FRC) and would permit requirements to be clearly highlighted while at the same time allowing both the requirements and explanatory material to be presented in concise and holistic manner.

**2. Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples would be likely to make the Code more capable of being adopted into laws and regulations, effectively implemented and consistently applied? If not, why not and what other approaches might be taken?**

Yes. We believe that enhanced clarity in the Code and clearer delineations of requirements from other interpretive material in the Code will make the adoption of the Code, or discreet requirements of the Code more easily and more effectively implemented and consistently applied.

**3. Do you have any comments on the suggestions as to the numbering and ordering of the content of the Code (including reversing the order of extant Part B and Part C), as set out in paragraph 20 of the Consultation Paper?**

We have no objections to the Board adopting new numbering for the Code. We believe that the numbering scheme proposed in the consultation paper can assist in managing future enhancements to the Code without impacting other sections. We are less convinced

as to the rationale for changing the order of extant Part B and C. However, we believe that this should be evaluated with the proposals on re-branding and the publication of separate standards as outlined in question 4 below.

**4. Do you believe that issuing the provisions in the Code as separate standards or rebranding the Code, for example as International Standards on Ethics, would achieve benefits such as improving the visibility or enforceability of the Code?**

Yes, we agree that the Code could benefit from re-branding, particularly with respect to the Independence content, which we believe should be re-framed as standards. This approach should also be considered for other sections. We are in favour of the Code being re-branded as the international standards on ethics, consistent with most other frameworks. We also believe that the separation of the Code between ethical standards for auditors as compared to ethical standards for other accountants would better reflect how such standards are adopted or implemented in many jurisdictions. The split between ethical standards applicable to auditors versus other accountants recognizes the fact that in many countries (e.g. UK, France, Italy) ethical standards applicable to auditors are adopted by regulators whereas independence rules are more the remit of professional bodies.

**5. Do you believe that the suggestions as to use of language, as reflected in the Illustrative Examples, are helpful? If not, why not?**

We support the objectives articulated by the Board to make the language simpler, shorter, and more direct. Except for our comments noted under item 1 above, we found that the language is improved. However, we see some examples where there is further room for improvement. For example, the Illustrative Examples contain the phrase “firm or network firms” in many instances, whereas the extant Code uses “firm” and relies on the definitions to clarify the fact that the firm always includes network firms unless otherwise stated. We believe that the current approach in the Code is appropriate and an objective of this project should be to keep the text simple rather than being overly precise.

**6. Do you consider it is necessary to clarify responsibility in the Code? If so, do you consider that the illustrative approach to responsibility is an appropriate means to enhance the usability and enforceability of the Code? If not, what other approach would you recommend?**

Yes, we believe the Code should include a requirement for a firm to have policies and procedures that enable identification of the individual(s) responsible for maintaining independence rather than just cross referencing to ISQC1. The illustration provided in this Exposure Draft provides a good starting point but we believe this section could be enhanced. For example, there could be a discussion of the role of leadership of the firm in fostering a culture of ethical behaviour.

In view of its importance, we recommend that this matter be the subject of a specific project so as to ensure that the subject is appropriately deliberated. The consultation states that

any new requirements will be subject to the Board's normal due process and specifically mentions responsibility as one subject that may generate new requirements. However, it does not make clear whether such matters will be the subject of separate projects.

**7. Do you find the examples of responsible individuals illustrated in paragraph 33 useful?**

Yes, paragraph 33 represents a good first attempt at identifying responsible individuals. However, as mentioned in Question 6 we believe that this provision can be enhanced.

**8. Do you have any comments on the suggestions for an electronic version of the Code, including which aspects might be particularly helpful in practice?**

Although we can see the benefit of an electronic version of the Code, we do not see it as a priority at this time. We are unaware of any jurisdiction where an electronic version is considered the official version of any set of standards or regulations. We consider a pdf text version with easy navigation (e.g. active links from the table of contents to applicable sections) as imperative.

**9. Do you have any comments on the indicative timeline described in Section VIII of this Paper?**

Yes. We believe the timing outlined in Section VIII is overly aggressive in view of the due process the Board must follow and the limited resources available to support the Board and that a target to expose a fully restructured Code by October 2015 does not provide sufficient time for the careful drafting and review that is necessary for a project of this scale to be successful. We see significant potential for unintended changes in meaning if the drafting occurs at such an accelerated pace. Additionally, we believe a generous review period is critical to the success of this project to allow respondents to confirm that the proposed new Code is accurate and meets the Board's stated objectives.

In this connection, we suggest the Board consider drafting and exposing the Code in sections, rather than endeavouring to expose the Code in its entirety at one time. Breaking down the project into more manageable components would have the advantage of enabling the Board to incorporate feedback from key stakeholders and to refine its approach as the project evolves. For example, Parts A and B (excluding sections 290 and 291) could be exposed as a first step and then sections 290 and 291 and finally Part C.

**10. Do you have any other comments on the matters set out in the Consultation Paper?**

Yes. We strongly support the intention of the Board as stated in paragraph 44 of the Consultation Paper not to change the meaning of the Code as part of this project, and if any potential substantive changes to the Code are identified during this effort those changes should be treated as a separate project or projects and be subject to the IESBA's normal due process. We must not only be mindful of the potential for omissions or inadvertent changes to meaning, but also be careful not to incorporate conscious or intended changes to the Code as part of the restructuring which would not allow for the proper focus, analysis and opportunity to comment that changes of this nature require.

We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Bob Franchini (+39-02-7221 2014) or Susan Nee (+44(0)207 980 0877).

Yours sincerely,

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