

Meeting: IESBA CAG

Meeting Location: New York

Meeting Date: September 14, 2015

Agenda Item

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Structure of the Code

Objectives of Agenda Item

1. To note the report-back on the March 2015 CAG discussion.
2. To obtain CAG Representatives' input on the issues paper for the September 2015 IESBA meeting.

Project Status and Timeline

3. In February 2012, the IESBA agreed to consider how it might improve the structure of the Code to raise the visibility of the requirements and prohibitions in the Code, and to clarify who is responsible for meeting them. Also, various stakeholders have commented on issues associated with the structure, format and clarity of the Code. Some of these issues relate to the usability of the Code and may be impacting adoption and implementation.
4. An IESBA Working Group researched the topic and reached out to various stakeholders in 2013 to gather input to better inform the Board. The CAG discussed the initiative in April and September 2013, March and September 2014, and March 2015.
5. At its April 2014 meeting, the IESBA approved the project proposal and established the Task Force.
6. In November 2014, the IESBA issued the Consultation Paper [*Improving the Structure of the Code of Ethics for Professional Accountants*](#) (the CP) with a closing date for responses of February 4, 2015.
7. In view of the importance of this project, IESBA CAG Representatives agreed to form a Working Group (WG) to track the project more closely and provide timely comments on drafts. Messrs. Dalkin and Hansen; and Ms. Robert agreed to join the WG. The Task Force considered initial feedback from a member of the WG at its meeting in June 2015 immediately before the June/July 2015 IESBA meeting.
8. In addition, at the March 2015 meeting Representatives considered a high level summary of the responses to the CP. CAG Representatives' input was reported to the IESBA at its April 2015 meeting.
9. Since the March 2015 CAG meeting, the Task Force has made presentations to and received comments from, the Forum of Firms, the IFAC Small and Medium Practices (SMP) Committee and the IESBA-National Standard Setters liaison group.

March 2015 CAG Discussion

10. Below are extracts from the draft minutes of the March 2015 CAG meeting,¹ and an indication of how the Task Force or IESBA has responded to CAG Representatives' comments.

| Matters Raised | Task Force/IESBA Response |
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| RESPONSIBILITY FOR COMPLIANCE WITH INDEPENDENCE AND OTHER ETHICAL REQUIREMENTS | |
| <p>Mr. Siong reported that the leaderships of the IESBA and the International Auditing and Assurance Standards Board (IAASB) had met the previous day to discuss a number of crossover matters, including the matter of responsibility within a firm for compliance with independence and other ethical requirements. He noted that IAASB leadership had agreed that the matter be referred to the IAASB's International Standard on Quality Control 1 (ISQC 1) Working Group for further consideration. The leaderships had agreed that it would be appropriate to do so as ISQC 1 deals not only with the internal organization of firms but also, importantly, with the matter of responsibility within a firm for quality control matters, including independence. Dr. Thomadakis indicated that the IESBA would liaise further with the IAASB on this matter.</p> <p>Mr. Koktvedgaard wondered whether the Code might still need to address the matter even if it were already addressed elsewhere in a narrower context.</p> | <p>The IAASB and IESBA are continuing to liaise on the question of responsibility. The IESBA is continuing to consider the issue of responsibility as appropriate and in conjunction with IAASB.</p> |
| REBRANDING THE CODE AS STANDARDS | |
| <p>Mr. Hansen supported the idea of integration. He noted that while independence could be included in a separate section, it is still part of the Code. He felt that standards in the context of the Code is different from standards in the context of auditing or financial reporting. He noted as an example that auditing or financial reporting standards tend to prescribe a minimum set of procedures or disclosures. He did not believe that the Code should prescribe a</p> | <p>Point noted. The IESBA is maintaining the principles-based approach of the Code whilst improving its clarity and usability.</p> |

¹ The March 2015 CAG minutes will be approved at September 2015 IESBA CAG meeting.

| Matters Raised | Task Force/IESBA Response |
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| <p>“cookbook approach” with respect to ethics, especially when the focus is on ethical behavior.</p> | |
| <p>Ms. de Beer noted that the current structure of the Code is not conducive to usability. She acknowledged Mr. Hansen’s caution about avoiding the Code becoming a “cookbook.” She suggested that looking at corporate governance codes might be useful since the subject matter is more similar to ethics codes. She noted that the South African corporate governance code lays down principles, with practical guidance included in the details. She was of the view that ISAs are not a good example to follow in this regard. She was optimistic that if the Board can achieve an improved structure, the Code would be more user friendly.</p> | <p>Point noted. The IESBA is adopting an independent style to its restructuring and examining various drafting styles as appropriate. See also the above response to Mr. Hansen on this topic.</p> |
| <p>Mr. Dalkin noted that INTOSAI is in the process of revising its code. He commented that the effort has proven harder than expected given that ethics requirements are more open to judgment than auditing standards. Accordingly, when contemplating the approach proposed by the Task Force, INTOSAI had realized that taking a similar approach would not be so straightforward.</p> | <p>Comments noted.</p> |
| <p>Mr. James commented that his interpretation of the “code vs. standards” matter was the opposite of Mr. Hansen’s. He was of the view that “standards” are more the principles that one must adhere to, whereas “code” is more aspirational in nature. On that basis, he felt that it would be more appropriate to refer to “standards.”</p> | <p>Mr. Thomson noted that while the “standards vs. code” matter will be a topic for continuing debate, all stakeholders recognize the importance of complying with the fundamental principles and applying the conceptual framework, with requirements on specific topics. He added that stakeholders generally agreed that specific requirements cannot be considered in isolation without considering the conceptual framework.</p> |
| <p>Ms. Robert highlighted the “one-page” Code suggested by a respondent. She noted that an executive summary may assist users in understanding the key features of the Code.</p> | <p>Mr. Thomson responded that the Task Force is not aiming to develop a one-page Code but does expect to include a “How to Use the Code” section to aid usability.</p> |

| Matters Raised | Task Force/IESBA Response |
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| FUNDAMENTAL PRINCIPLES | |
| <p>Mr. Fukushima noted IOSCO’s suggestion to replace the “purpose” component with an “objective” component. He was of the view that the overall objective should be to comply with the fundamental principles. He felt that the concept of “objectives” as opposed to “purpose” would better capture this notion.</p> | <p>Mr. Thomson noted the Task Force would be mindful of Mr. Fukushima’s comments. He indicated that the Task Force is considering introducing a “core requirement” in each section, although the terminology may be refined, to emphasize the requirement to apply the conceptual framework and comply with the fundamental principles.</p> |
| DISTINGUISHING REQUIREMENTS FROM GUIDANCE | |
| <p>Ms. Elliott suggested that the approach taken in the IIA’s standards may provide good inspiration with respect to readability and format of presentation.</p> | <p>Comment noted.</p> |
| <p>Mr. Baumann cautioned against splitting the Code into requirements and guidance, noting the risk of losing requirements in the process. He acknowledged the challenge in determining whether material is requirements or guidance.</p> | <p>Mr. Thomson noted that one of the fundamental considerations of the Task Force is to ensure that there is no reduction in requirements in the restructured Code. He added that the proposed separation is intended to facilitate working with the Code and not to allow users to only consider the requirements and ignore the guidance.</p> |
| <p>Dr. Arteagoitia commented that the project is more important than it might appear. He felt that the 2009 Code failed to achieve its full potential mainly because of its structure. He noted that some stakeholders felt that the Board should have clarified the Code then. He highlighted the need for the Board to promote the product not only to auditors but also to regulators. He suggested that the Code should be clear, simple and to the point. He urged the Board not to rush the project, which he felt was the main reason the 2009 Code failed to gain full recognition among stakeholders.</p> | <p>Point noted. The project scope covers restructuring without changes in meaning. The product will be promoted to all IESBA stakeholders. The IESBA is promoting clear drafting and will ensure that the project follows due process within appropriate timescales.</p> |
| CLARIFYING RESPONSIBILITY | |
| <p>Mr. James noted that the focus of the Board seemed to be on breaches of independence requirements. He indicated that IOSCO viewed this as only an example. He also indicated that IOSCO</p> | <p>Mr. Thomson responded that the Board had already discussed the matter at length and decided that substantive issues would be outside the scope of this</p> |

| Matters Raised | Task Force/IESBA Response |
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| <p>was of the view that it should not be the engagement team who should deal with a breach of an independence requirement. He commented that there may be other areas of the Code that may need similar attention.</p> | <p>project. However, there is Board agreement that the Code should be aligned with ISQC 1.</p> |
| <p>Ms. Robert was of the view that addressing the matter of responsibility in the Code should be a standalone project and not part of the Structure project.</p> | <p>See the response to Mr. James on this topic above.</p> |
| <p>Mr. Koktvedgaard acknowledged that a separate project might be required to consider this matter. However, he expressed a concern that treating this matter as a separate project might hamper clarification of the Code</p> | <p>See the response to Mr. James on this topic above.</p> |
| UNINTENDED CHANGES | |
| <p>Mr. Greene noted his support for the project. He commented that he had recently participated in AICPA's pilot testing. He suggested that the Board consider a similar exercise as it would prove valuable.</p> | <p>Support noted. Mr. Thomson commented that the Task Force is supportive of this idea and planned to explore it further with the Board, recognizing the need for the exercise to be done right.</p> |
| <p>Mr. Hansen noted that if the Board does decide to perform pilot testing, it would be helpful to spend some time considering who would perform the testing. He noted that when the AICPA ran its pilot test, it included not only firms of different sizes but also state regulators. He added that the exercise could assist in achieving regulatory buy-in. He also commented that the side-by-side mapping would be a critical part of the restructure process, and suggested that the Board archive the mapping document. More broadly, he highlighted the importance of archiving the different versions of the Code in order to be able to refer to the standards in effect at a specific point in time.</p> | <p>Support and comments noted. IESBA's stakeholders will be invited to consider the Code as each tranche is posted for IESBA meetings and on its exposures for comment.</p> |

Matters for Consideration

Issues

11. The issues paper tabled for the September 15-16, 2015 IESBA meeting is presented as Agenda Item D-1. The Task Force is seeking the views of CAG Representatives on the matters for consideration in Agenda Item D-1 and will then brief the Board on the CAG's input.

Matter for CAG Consideration

1. Representatives are asked for views on the matters for consideration in Agenda Item D-1.

Material Presented

Agenda Item D-1 September 2015 IESBA Issues Paper

CAG Representatives who wish to view the detailed draft restructured Code are encouraged to visit the [September 2015 IESBA meeting page](#) (IESBA Agenda Item 2). Comments from CAG Representatives concerning specific drafting issues will be accepted offline.