

Meeting: IESBA CAG

Meeting Location: Madrid, Spain

Meeting Date: September 13, 2017

Agenda Item

C

Structure of the Code

Objectives of Agenda Item

1. To discuss significant matters arising from the feedback on the January 2017 Exposure Draft: [Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2](#) (Structure ED-2) and obtain CAG Representatives' views on the Task Force's responses.

Project Status and Timeline

2. The Appendix to this paper provides a history of previous discussions with the CAG on this topic, including links to relevant CAG documentation. A report back on the last substantive CAG discussion, which occurred in September 2016, was provided as part of the agenda materials for the March 2017 CAG meeting.
3. The Structure of the Code (Structure) project established new structure and drafting conventions for the Code. The IESBA views this project as strategically important, and therefore a high priority. The Structure Task Force has overall responsibility for the project, including oversight of restructuring of various parts or sections of the Code being performed by other Task Forces. All IESBA staff and several Task Forces have been working on a coordinated basis to progress the various work streams on schedule.

Phase 1

4. At its December 2016 meeting, the IESBA agreed in principle to new structure and drafting conventions for the Code and the text of Phase 1 of the Structure project, taking into account respondents' feedback on the December 2015 Exposure Draft [Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1](#) (Structure ED-1) as well as input from the CAG. A staff-prepared [Basis for Agreement in Principle](#) was released in January 2017. It summarizes the feedback received from respondents to the Structure ED-1, and explains the rationale for the IESBA's decisions in agreeing in principle to the new structure and drafting conventions for the Code, the restructured text of Part A,¹ and most of Part B² of the extant Code. A Basis for Conclusions document for the Structure project will be prepared once Phase 2 of the project is completed.

Phase 2

5. In January 2017, the IESBA released three Exposure Drafts (EDs) that are inter-related through the

¹ Extant Part A – *General Application of the Code*

² Extant Part B – *Professional Accountants in Public Practice*, Sections 200 to 290 (excluding paragraphs 290.500 to 290.514, *Reports that Include a Restriction on Use and Distribution*)

work on developing a restructured Code. Structure ED-2 comprises the restructuring of the text of several IESBA projects representing the majority of the remainder of the extant Code that was not included in Phase 1 of the Structure project, and includes restructured texts relating to:

- Proposed Section 800³ and Part 4B;⁴
 - Phase 1 of the Part C project, as revised in the Close-off document, [*Changes to Part C of the Code Addressing Preparation and Presentation of Information and Pressure to Breach the Fundamental Principles*](#).
 - The July 2016 pronouncement, [*Responding to Non-Compliance with Laws and Regulations*](#) (NOCLAR).
 - The Long Association Close-off Document, [*Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*](#) (LA).
6. The restructured Code that the IESBA anticipates approving in December 2017 will also include:
- Revised and restructured provisions relating to safeguards, including the agreed-in-principle text relating to Phase 1 of the Safeguards project and the Phase 2 text included in the January 2017 Exposure Draft, [*Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments*](#) (Safeguards ED-2);
 - The revised applicability provisions relating to extant Part C that were proposed in the January 2017 Exposure Draft, [*Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice*](#) (Applicability ED); and
 - The revisions to proposed application material in the May 2017 Exposure Draft, [*Proposed Application Material Relating to Professional Skepticism and Professional Judgment*](#) (PS&PJ ED).

Part C Phase 2 – Proposals Relating to Inducements

7. The proposals relating to the inducements provisions in the extant Code were approved for exposure at the June 2017 IESBA meeting as part of Phase 2 of the Revision of Part C of the Code project and will be finalized in 2018 (see **Agenda Item D**). Accordingly, the sections of the extant Code affected by those proposals will be excluded from the restructured Code that is scheduled to be finalized in December 2017.

Upcoming IESBA Meeting Discussion

8. The comment deadline for Structure ED-2 was May 25, 2017. CAG Representatives will receive a presentation summarizing the feedback from respondents to Structure ED-2 and the Task Force's proposals at the CAG meeting (see presentation slides at **Agenda Item C-1**).
9. Discussion of the various restructuring work streams will take up a significant portion of the September 2017 IESBA meeting. The IESBA will be asked to consider the significant issues raised

³ Proposed Part 4A – Independence for Audits and Reviews, Section 800, *Reports that Include a Restriction on Use and Distribution*

⁴ Proposed Part 4B – Independence for Other Assurance Engagements

by respondents to the Structure ED-2 and the related Task Force's responses, including revisions and refinements that have been made in the light of respondents' feedback and the IESBA's input on the Task Force's [June 2017 preliminary proposals](#).

10. The January 2017 IESBA Update, [Toward a Restructured International Code of Ethics](#) contains highlights of the main improvements to the proposed restructured Code, including details of how the different IESBA work streams are being coordinated and related timelines.
11. The restructured Code will be renamed *International Code of Ethics for Professional Accountants (including International Independence Standards)*, will contain enhanced and revised sections related to the new projects (i.e., Safeguards, Part C Phase 1, LA, and NOCLAR) that are being, or are already finalized. The IESBA believes that the new title appropriately emphasizes the principles basis of the Code. The revised title also makes clear that the Code includes standards addressing independence, thereby signaling that the Code contains requirements for which compliance is subject to specific regulatory oversight and enforcement.

Matters for CAG Consideration

12. **Agenda Item C-1** is a slide presentation that summarizes the feedback received on Structure ED-2 and includes matters for CAG consideration.
13. **Agenda Item C-2** is a staff-prepared compilation of the restructured Code, inclusive of the revisions to the various proposed texts to be included in the restructured Code and incorporate Task Forces' proposed revisions in response to feedback from respondents. The mark-ups showing the proposed revisions to the various proposed texts are included in the agenda items to the [September 2017 IESBA Meeting](#) (see IESBA meeting Agenda Items 2-B, 3-B, 3-C, 4-A, 5-B, 6-A, 7-B, and 8-A).

IESBA Interaction with the IESBA CAG Regarding the Structure project

14. The substantive issues to be considered by the IESBA during their September 2017 meeting is included in **Agenda Item 2-A** of the material presented for CAG reference below. This material is also summarized in **Agenda Item C-1**. This serves as the final CAG discussion of the Structure project prior to its anticipated approval. Representatives may wish to take this opportunity to comment on the IESBA's interaction with the CAG during the development and finalization of the Structure project. As noted above, the Appendix to this paper provides a project history, including links to the relevant CAG documentation.

Material Presented – FOR IESBA CAG CONSIDERATION

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|-----------------|---|
| Agenda Item C-1 | Slide Presentation, Structure – Feedback on Structure ED-2 and Task Force Proposals |
| Agenda Item C-2 | Staff-prepared Draft Compilation of Restructured Code – As of August 2017 |

Material Presented – FOR IESBA CAG REFERENCE PURPOSES ONLY

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| September 2017 IESBA Meeting | Structure–Significant Issues from Structure ED-2 Comments and Related Task Force Responses |
| Agenda Item 2-A | |

Appendix

Project History

Project: Structure of the Code

Summary

| | CAG Meeting | IESBA Meeting |
|--|--------------------------------|--|
| Project commencement ⁵ | March 2014 September 2014 | March 2014 June 2014 September 2014 December 2014 |
| Development of proposed international pronouncement for Phase I (up to exposure) | March 2015 September 2015 | April 2015 June/July 2015 September 2015 November/December 2015 |
| Phase I Exposure Draft/ Structure ED-1 | December 2015 – April 18, 2016 | |
| Consideration of significant comments on Phase 1 Exposure Draft (up to agreement in principle) | September 2016 | June 2016 September 2016 December 2016 |
| Development of proposed international pronouncement for Phase 2 (up to exposure) | March 2016 September 2016 | March 2016 June 2016 |

⁵ The scope for the Structure project and the approach to restructuring the extant Code was informed by extensive research conducted with various stakeholders, including the CAG. For example, the CAG advised IESBA on:

- The development of a Terms of Reference for the Working Group formed to advise the IESBA on improving the structure of the IESBA Code in [April 2013](#) (see Agenda Items C, and C-1 and related final minutes of the April 2013 CAG meeting); and
- That Working Group's preliminary analysis of research findings in [September 2013](#) (see Agenda Items G and G-1 and the related final minutes of the September 2013 CAG meeting).

The project was also informed by the feedback from respondents to a November 2014 Consultation Paper (CP), [Improving the Structure of the Code of Ethics for Professional Accountants](#) which sought input from stakeholders on approaches that could be taken to improve the clarity of the Code by revising its structure. The CP notes that the Structure project aims to improve the usability of the Code, thereby facilitating its adoption, effective implementation and consistent application.

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|---|-----------------------------|---------------------------------|
| | | September 2016 December 2016 |
| Phase 2 Exposure Draft/ Structure ED-2 | January 2017 – May 25, 2017 | |
| Consideration of significant comments on Phase 2 Exposure Draft (up to approval) | September 2017 | June 2017 September 2017 |

CAG Discussions: Detailed References

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|--|---|
| Project Commencement | <p><u>March 2014</u></p> <p>See IESBA CAG meeting material here (see Agenda Items F and F-1, F-2, F-3, F-4 and F-5) and final CAG meeting minutes (see section F).</p> <p><u>September 2014</u></p> <p>See IESBA CAG meeting material here (see Agenda Items F and F-1) and final CAG meeting minutes (see section F).</p> |
| <p>Development of proposed international pronouncement (up to exposure of Phase 1)</p> <p>Consideration of significant comments on Phase 1 Exposure Draft (up to agreement in principle)</p> | <p><u>March 2015</u></p> <p>See IESBA CAG meeting material here (see Agenda Items C and C-1) and final CAG meeting minutes (see C section).</p> <p><u>September 2015</u></p> <p>See IESBA CAG meeting material here (see Agenda Items D and D-1) and CAG meeting minutes at Agenda Item A (see Section D).</p> <p><u>March 2016</u></p> <p>See IESBA CAG meeting material here (see Agenda Items D-1 and D-1.1) and final CAG meeting minutes (see D section).</p> <p><u>September 2016</u></p> <p>See IESBA CAG meeting material here (see Agenda Items B, B-1 and B-2) and final CAG meeting minutes (see Section B).</p> |
| Development of proposed international pronouncement (up to exposure of Phase 2) | <p><u>September 2016</u></p> <p>See IESBA CAG meeting material here (see Agenda Items B, B-1 and B-2) and final CAG meeting minutes (See Section B).</p> <p><u>March 2017</u></p> <p>See report-back on CAG September 2016 meeting discussion here (see Agenda Item G-1) and final CAG meeting minutes at Agenda Item A.</p> |

