

Structure of the Code – Initial Status Report**Background**

1. 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.
2. In February 2012, the IESBA agreed to consider how it might improve the structure of the Code to raise the visibility of its requirements and prohibitions, and clarify who is responsible for meeting them. As a result of this discussion, the IESBA decided to add a Structure of the Code initiative as a new work stream to its 2011-2012 strategy and work plan.
3. In June 2012, the Planning Committee provided the IESBA with an example of a possible reformatting approach with respect to the requirements and prohibitions in the Code. It was noted that this was but one of various approaches that could be considered. Overall, IESBA members were supportive of the initiative and agreed that any steps to make the Code more understandable by users would be beneficial. Certain IESBA members noted that additional clarity steps should be considered as well.
4. At the conclusion of this discussion, the IESBA agreed that the Planning Committee should consider the input received and determine whether a complete reformatting exercise should be done now or possibly smaller steps taken to improve the Code with additional steps taken at a later date. It was suggested that the IESBA consider outreach opportunities and develop an action plan to ensure the support of key stakeholders.
5. At its December 2012 meeting, the IESBA briefly discussed aspects of this initiative and supported the establishment of the Working Group to more formally explore options for the way forward. The Working Group met in February 2013 to brainstorm ideas and develop an initial draft Terms of Reference for the IESBA's consideration.

Proposed Terms of Reference

6. The Working Group considered whether the scope of the initiative should be limited to the brief agreed by the IESBA in February 2012 (i.e., visibility and responsibility), or extended to include clarity and understandability. On the basis of stakeholder feedback to date (as highlighted in paragraph 11 below), the Working Group believes that the adoption and implementation challenges that stakeholders have been experiencing with respect to the Code go beyond simply matters of visibility and responsibility and touch on the clarity (and thereby understandability) and usability of the Code more broadly. Accordingly, the Working Group believes that the scope of the initiative should address broader matters of clarity and usability. (The Working Group recognizes that the concept of clarity is broad and that there could be a number of different ways of achieving it with respect to the Code. These are considered further under the short term and long term key elements described in paragraph 17 below.)
7. The Working Group plans to undertake appropriate research and provide a report to the Board setting out findings from this research, together with recommendations on ways to improve the clarity and usability of the Code.

8. At this time, the Working Group will be focused on developing and communicating appropriate recommendations. The Working Group may provide examples to help the Board understand its recommendations, but any revision of the Code to address the Working Group's recommendations will be subject to Board approval at a future date.
9. The Working Group understands its mandate does not include recommending any changes to the meaning of the Code. Such changes would be better handled by separate projects. Recommended changes to enhance clarity and usability may impact interpretations. The Working Group will consider how its recommendations can help the Board improve clarity and usability without making any changes that would be better handled by separate projects.
10. The Working Group may report certain findings to the Board that are outside its remit but that, in its view, warrant the Board's attention.

Research Plan

11. The IESBA has in the past received feedback on the clarity and usability of the Code. For example, regulators have provided comments, and an IFAC Small and Medium Practices (SMP) Committee survey¹ stated that the biggest barrier faced by small and medium practices (SMPs) in fully adhering to the Code is "understanding the requirements of the Code," and regulators have provided comments. The Board has also received various comments on the difficulties in translating some parts of the Code into foreign languages and difficulties in understanding complex and long sentences in the Code by those whose first language is not English. This feedback will be considered when performing research.
12. The Working Group will identify matters warranting attention based on each Working Group member's knowledge, relevant information available within IFAC, input from IFAC member bodies, and additional input as needed. This is expected to include research with member bodies with the assistance of the IFAC Compliance Advisory Panel (CAP) staff. The Working Group anticipates paying particular attention to those jurisdictions which have adopted the Code and have experience dealing with implementation.
13. In addition, the Working Group will consider any input that may be provided by regulators. Other sources of input will include:
 - The IESBA Consultative Advisory Group (CAG)
 - The IESBA-National Standard Setters (NSS) liaison group
 - Firms
 - The IFAC SMP Committee
 - The IFAC Professional Accountants in Business (PAIB) Committee
14. Research may also include identifying alternative approaches to drafting and presenting the Code. The Working Group understands that there are at least three IFAC member bodies that are redrafting their ethics codes, including one which is proposed to be five pages long. Findings from the research they may have undertaken to support their redrafting initiatives, and the approaches

¹ <http://www.ifac.org/sites/default/files/publications/files/IFAC-SMP-Quick-Poll-2012-Round-Up.pdf>

on which they have settled, may inform the Working Group's research. The Working Group may also research codes or equivalents from other professions to identify alternative approaches.

15. Input may be obtained from other sources regarding information technology and other matters.

Key Elements

16. At its February 2013 meeting, the Working Group identified a number of key elements to consider. The Working Group believes that some of these elements could be addressed in the short term as they pertain more to matters of general clarification and presentation. Other elements could be dealt with on a longer term basis as they would call for broader stakeholder buy-in and could entail structural and other fundamental changes to the Code.
17. The elements the Working Group has identified for consideration include the following:

Short Term

- Drafting Conventions: Consideration of the adoption of a set of drafting conventions to encourage the use of plain English and to discourage long and complex sentences, amongst other matters.
- Reformatting: Consideration of how the visibility of the requirements and prohibitions in the Code or parts of the Code could be enhanced.
- Responsibility: Consideration of enhancing the clarity of who should bear responsibility for complying with the requirements and prohibitions in the Code, where the Board intended that responsibility be assigned.

Longer Term

- Restructuring: Consideration of effective ways in which the Code could be restructured (including the idea of incorporating Part C within Part A as suggested in the Part C project proposal (see Agenda Item 6-A)).
- Packaging: Consideration of effective ways in which the Code could be repackaged, for example, separating out the Code into distinct booklets applicable to professional accountants in public practice and professional accountants in business, or placing the existing interpretation 2005-01 and any additional ones apart from the Code. Consideration could also be given to rebranding the Code, for example, by renaming the individual sections within the Code as "International Standards on Ethics," which may enhance perceptions of the accessibility of the Code.
- "Clarity" project: Consideration of the merits of undertaking a "Clarity" project similar to that which the IAASB undertook a few years ago. The IAASB project was extensive, required the investment of considerable resources, and involved redrafting and restructuring the ISAs, including moving their requirements and application material into separate sections. Alternatively, consideration could be given to the development of complementary materials to facilitate comprehension of the Code by users.
- Delivery Media: Consideration of the development of an electronic Code that could supplement the printed Handbook. Consideration could be given to the capabilities that could

be built into this electronic version, including, but not limited to, navigational tools. Consideration could be given to other forms of delivery media, such as a one page summary of provisions of the Code that apply to SMPs.

18. Although the Working Group does not anticipate finalizing its recommendations until after the research phase, the Working Group may, as part of the research described above, put forward some possible options with respect to the matters on which stakeholders' views will be sought to facilitate their consideration of those matters.
19. As part of its consideration of the key elements outlined above, the Working Group will analyze their possible impacts.

Proposed Timeline

20. Appendix II sets out the Working Group's tentative timeline for a way forward.
21. The Working Group recognizes that the IESBA 2014-2016 Strategic Review Survey includes a question on Restructure of the Code. The Working Group will consider stakeholders' views regarding the prioritization of this initiative when it makes its recommendations on addressing the short term and long term elements.
22. The Working Group envisions:
 - At the September 2013 IESBA meeting, presenting a status report which may include examples of possible changes being considered.
 - At the December 2013 IESBA meeting, presenting a preliminary report on the findings of the research.
 - At the March 2014 IESBA meeting, a final report and recommendations addressing both the short term and longer term elements, and a draft consultation paper on the longer term elements. Subject to the IESBA's consideration and approval of the short term recommendations, a Task Force could be established to commence work on the short term elements thereafter.
 - At the June 2014 IESBA meeting, presenting the final draft of the consultation paper on the longer term elements for approval.

IESBA Structure of the Code Working Group—Draft Terms of Reference

1.0 Objective

The objective is to identify and recommend to the Board ways to improve the clarity and usability of the Code thereby facilitating its adoption, effective implementation and consistent application.

2.0 Approach

The Working Group will focus in particular on drafting conventions, format, structure, and delivery media taking into account impediments identified by stakeholders. It will develop and validate findings and recommendations based on research and communication with stakeholders. Timely reporting to the IESBA will be important to enable the IESBA itself to be suitably responsive.

3.0 Deliverables

The Working Group is responsible for reporting its findings and recommendations to the IESBA. Recommendations should be consistent with the importance of serving the public interest, reinforce the importance of high quality ethical standards, including independence standards, for professional accountants in public practice and in business and, where feasible, offer practical solutions.

4.0 Composition

The Working Group will be chaired by a member of the IESBA, with four additional members.

Appendix II

Tentative Timeline

The Working Group's proposes the following tentative timeline for the initiative up until approval of a consultative paper by the IESBA:

Indicative Timing	Milestone
March 2013	IESBA – Consider the draft Terms of Reference.
April 2013	Discussion with CAG
May 2013	Discussion with NSS
April-September 2013	Gather and compile relevant information, including: <ul style="list-style-type: none"> Information currently in the Board's files or available (via CAP or otherwise) from IFAC member bodies with experience in dealing with compliance with the Code, with particular focus on any known areas of concern; and A summary of any other relevant information currently in the Board's files or available from IFAC member bodies, such as relevant reports and responses to exposure drafts and surveys and other available IFAC resources.
June 2013	IESBA – Receive update and approve the Terms of Reference
September 2013	IESBA – Receive update
December 2013	IESBA – Receive and discuss the Working Group's preliminary report
March 2014	IESBA – Receive the Working Group's final report and recommendations; consider draft consultation paper on longer-term elements; establish task force to undertake project to address agreed short-term elements
April 2014	Task Force – Commence work on short-term elements
June 2014	IESBA – Approve consultation paper on longer term initiatives