

**Meeting:** IESBA

**Meeting Location:** New York

**Meeting Date:** December 12–15, 2016

## Agenda Item

# 3

### Structure of the Code Phases 1 and 2

#### Objectives of Agenda Item

1. To agree in principle the final text of Phase 1 of the Structure project.<sup>1</sup>
2. To consider with a view to approval for exposure the proposed text for Phase 2 of the Structure project (Structure ED-2) comprising:
  - Chapter 1–Proposed Restructured Text of the [Close-off Document for Part C Phase 1](#).<sup>2</sup>
  - Chapter 2–Proposed Restructured Text of the final NOCLAR provisions, [Responding to Non-compliance with Laws and Regulations](#).<sup>3</sup>
  - Chapter 3 –Proposed Restructured Text of the Revised Provisions Regarding Long Association (LA).<sup>4</sup>
  - Chapter 4–Proposed Restructured text of the Provisions Addressing Restricted Use Reports<sup>5</sup>
  - Chapter 5–Proposed Restructured Text Relating to Independence – Other Assurance Engagements (Part 4B).<sup>6</sup>

See paragraphs 12-18 for an outline of the proposed format for the discussion at the December 2016 IESBA meeting in relation to the various structure work streams.

3. To consider and provide input on a draft staff-prepared compilation of the entire restructured Code.

**A Structure Task Force (TF) meeting is planned for Sunday December 11, 2016. Accordingly, the TF requests comments on its proposed text set out in Agenda Items 3-B and 3-D in advance of the meeting. Please email them to [elizabethhiggs@ethicsboard.org](mailto:elizabethhiggs@ethicsboard.org). Comments on the proposed conforming amendments arising from the Safeguards project (i.e., the gray text in Agenda Items 3-B and 3-D) should also be directed to [dianejules@ethicsboard.org](mailto:dianejules@ethicsboard.org).**

<sup>1</sup> Proposed Restructured Code, Part 1 – Sections 100 to 120 *Complying with the Code, Fundamental Principles and Conceptual Framework*; and Part 4A – Sections 900 to 899, *Independence Other Assurance Engagements* (excluding Proposed Restructured Code, Section 800 – *Reports that Include a Restriction on Use and Distribution*)

<sup>2</sup> Proposed Restructured Code, Sections 200 to 299 – *Professional Accountants in Business*

<sup>3</sup> Proposed Restructured Code, Sections 260 and 360 – *Responding to Non-compliance with Laws and Regulations*

<sup>4</sup> Proposed Restructured Code, Section 540 *Long Association of Personnel (Including Partner Rotation) with an Audit Client*; and Section 940 *Long Association of Personnel with an Assurance Client*

<sup>5</sup> Proposed Restructured Code, Section 800 – *Reports that Include a Restriction on Use and Distribution* (extant Code paragraphs 290.500 to 290.514 – *Reports that Include a Restriction on Use and Distribution*)

<sup>6</sup> Proposed Restructured Code, Part 4B – Sections 900 to 899, *Independence – Other Assurance Engagements*

### TFs and Respective Responsibilities

4. The Structure project has established a new structure and format for the Code. The Structure TF has overall responsibility for the project, including oversight of restructuring being performed by other TFs.
5. The Table below lists the composition of the TFs and Staff responsible for each work stream, and the specific Agenda Item(s) that includes the TF's proposed text. The various TFs and their Staff continue to work on a coordinated basis to progress the various work streams on schedule.

Structure TF	Safeguards TF <sup>β</sup>	Part C TF	NOCLAR TF	LA TF
<b>Agenda Items 3-B and 3-D</b>	<b>Agenda Item 4-B, 4-D and 4-E</b>	<b>Agenda Item 5-B</b>	<b>Agenda Item 7-B</b>	<b>Agenda Item 8-B</b>
<ul style="list-style-type: none"> <li>• Don Thomson, TF Chair, former IESBA Member</li> <li>• Tony Bromell, IESBA Technical Advisor</li> <li>• Brian Caswell, IESBA Member</li> <li>• Liesbet Haustermans, IESBA Member</li> <li>• Peter Hughes, former IESBA Member</li> <li>• Stefano Marchese, IESBA Member</li> </ul>	<ul style="list-style-type: none"> <li>• Gary Hannaford, TF Chair, IESBA Member</li> <li>• Kim Gibson, IESBA Member</li> <li>• Wui San Kwok, former IESBA Deputy Chair</li> <li>• Ian McPhee, IESBA Member</li> <li>• Jens Poll, IESBA Technical Advisor</li> <li>• Sylvie Soulier, IESBA Member</li> </ul> <p>Observer:</p> <ul style="list-style-type: none"> <li>• Don Thomson</li> </ul>	<ul style="list-style-type: none"> <li>• Helene Agéllii, TF Chair, IESBA Member</li> <li>• Joyce Evans, IFAC PAIB Committee Member</li> <li>• Claire Ighodaro, IESBA Member</li> <li>• Robert Juenemann, IESBA Member</li> <li>• Lisa Snyder, IESBA Member</li> </ul>	<ul style="list-style-type: none"> <li>• Richard Fleck, TF Chair, IESBA Deputy Chair</li> <li>• Helene Agéllii, IESBA Member</li> <li>• Atsushi Kato, IESBA Member</li> </ul>	<ul style="list-style-type: none"> <li>• Richard Fleck, TF Chair, IESBA Deputy Chair</li> <li>• Brian Caswell, IESBA Member</li> <li>• Gary Hannaford, IESBA Member</li> <li>• Chishala Kateka, IESBA Member</li> <li>• Andrew Pinkney, IESBA Technical Advisor</li> </ul>
Staff: Elizabeth Higgs and Shirley Sommer	Staff: Diane Jules	Staff: Kaushal Gandhi	Staff: Ken Siong	Staff: Ken Siong
<i>Responsible for restructuring the extant Code, including providing oversight to other TFs in this regard.</i>	<i>Responsible for developing revisions in the restructured format to enhance safeguards.</i>	<i>Responsible for restructuring the close-off document for Part C Phase 1.<sup>7</sup></i>	<i>Responsible for restructuring the NOCLAR provisions.</i>	<i>Responsible for restructuring the revised LA provisions.</i>

<sup>β</sup> See paragraphs 8-11 of this paper for a discussion about conforming amendments arising from the Safeguards project.

<sup>7</sup> Phase 2 of the Part C involves a revisions of Section 350, *Inducements*. The IESBA will consider a first-read at its December 2016 meeting, and therefore will not form part of Structure ED-2.

### Activities Since Last IESBA Discussion

6. The Structure TF met in person in October 2016 to review the draft restructured Code and twice by teleconference to prepare the agenda materials for this meeting.
7. A summary of the key issues arising from the feedback from respondents on Structure ED-1 was presented at the October 2016 meetings of the Forum of Firms and IFAC Small and Medium Practices (SMP) Committee. A summary of the Board's responses to those issues was also presented. Similar presentations were also made to the EAIG<sup>8</sup> and the Standards Coordination Working Group of IFIAR<sup>9</sup> in November 2016. An oral update regarding comments received at these meetings will be provided during the session.

### Conforming Amendments Arising from the Safeguards Project

#### *Structure Phase 1*

8. The proposed conforming amendments arising from the Safeguards project to the proposed Structure Phase 1 text are set out in **Agenda Item 3-B** and shown in gray text. Those proposed conforming amendments will be exposed for public input as part of the Safeguards Phase 2 ED, the layout for which is set out in **Agenda Item 4-E**.

#### *Structure and Safeguards Phase 2*

9. **Agenda Item 3-D** and **4-E** includes an illustration of the recommended layout for the Phase 2 Structure and Safeguards EDs. The proposed conforming amendments arising from the Safeguards project to the other sections of the Code will be set out in Structure ED-2 and will be shaded gray. They will not be repeated in Safeguards ED-2. For purposes of the December 2016 IESBA meeting, the conforming amendments arising from the Safeguards project are shaded gray and are presented in:
  - **Agenda Item 5-B**, restructured text for Part C Phase 1 close-off document.
  - **Agenda Item 8-B**, restructured text for the revised Long Association provisions.
  - **Agenda Item 3-D**, Section 800 and Part 4B.

There were no conforming amendments arising from the Safeguards project to the restructured NOCLAR text.

#### *Other Matters*

10. The discussion about proposed conforming amendments arising from the Safeguards project will be led by the Chair of the Safeguards TF during the Safeguards Phase 2 session. **Agenda Item 4-A** summarizes the Safeguards TF's rationale for those proposed conforming amendments.

### Format of the Board Discussion

11. Discussion of the various Structure of the Code work streams will take up a significant portion of the December 2016 Board meeting.

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<sup>8</sup> The European Audit Inspection Group

<sup>9</sup> The International Forum of Independent Audit Regulators

*Drafts to be Discussed at the Meeting*

12. A listing of the agenda items that set out the proposed text for the various Structure of the Code work streams to be discussed at the meeting is included in paragraphs 5 and 10 (as it relates to the conforming amendments arising from the Safeguards project). The proposals developed solely by the Structure TF are set out in:

- **Agenda Item 3-B**, Proposed Revisions to Structure ED-1; and
- **Agenda Item 3-D**, Proposed Section 800 and Part 4B.

The agenda items to be discussed at the meeting are shown in mark-up to illustrate changes made by the various TFs since the September 2016 IESBA meeting.

13. Discussion of the proposals relating to structure work streams developed by the Safeguards, Part C, NOCLAR, and LA will be led by the respective TF Chair responsible for those topics.
14. The Board will be asked to consider significant matters raised in the various issues papers. This will be followed by consideration of any significant matters raised by Board members in advance of the meeting. Board members will then have an opportunity to raise any other significant matters. Other drafting suggestions are appreciated and can be provided to Staff, preferably in advance of the December 2016 meeting.
15. Reading time has been scheduled during the week of the meeting to allow Board participants time to consider revised texts following the Board's discussions.
16. **Agenda Item 3-F** is a staff-prepared clean compilation of the full proposed restructured Code. Comments on this compilation are important, although it will not be the primary document to be discussed during the meeting.
17. During the meeting, IESBA members will be asked for views on:
- **Agenda Item 3-G and Agenda Item 4-G**, a draft Basis for Agreement in Principle document that summarizes the rationale for the Board's conclusions regarding the text of Structure and Safeguards Phase 1; and
  - **Agenda Item 3-H and Agenda Item 4-H**, a draft EM accompanying the Structure and Safeguards Phase 2 EDs.

IESBA members will also be asked for views about the questions that should be included in the Phase 2 EDs to solicit feedback on the IESBA's proposals.

**Materials Presented**

*For IESBA Consideration*

Agenda Item 3-A Structure of the Code Phases 1 and 2 – Issues and TF Proposals

Agenda Item 3-B Structure Phase 1 – Proposed Text, with Conforming Amendments Arising from the Safeguards Project (Mark-up From September 2016 IESBA Meeting)\*

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\* Clean versions of Sections 120, 300, 600 are included in the Staff-prepared Compilation of the Restructured Code which form part of the Structure of the Code agenda materials. To accompany the Staff-prepared Compilation of the Restructured Code, Staff will also prepare mapping tables to compare the text of extant Code to the restructured text. For NOCLAR and LA, a mark-

- Agenda Item 3-C Structure Phase 1 – Proposed Text, with Conforming Amendments Arising from the Safeguards Project (Mark-up From Structure ED-1)\*
- Agenda Item 3-D Structure Phase 2 – Proposed Text (Section 800 and Part 4B With Conforming Amendments Arising from the Safeguards Project (Mark-up From September 2016 IESBA Meeting)\*
- Agenda Item 3-E Draft IESBA Update
- Agenda Item 3-F Draft Staff-prepared Compilation of Restructured Code as of December 2016
- Agenda Item 3-G Draft Basis for Agreement-in-Principle (BFAP) for *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1*
- Agenda Item 3-H Draft Explanatory Memorandum (EM) for *Exposure Draft: Improving the Structure of the Code of Ethics for Professional Accountants—Phase 2*
- For Reference Only*
- Agenda Item 3-I Drafting Guidelines for Restructuring the Code

### Action Requested

18. Taking into account the matters for consideration set out in **Agenda Item 3-A** and **Agenda 4-A** (as it relates to conforming amendments arising from the Safeguards project), IESBA members are asked:
- (a) Whether there are any matters raised by respondents to ED-1<sup>10</sup> in addition to those presented to-date by the TF that should be discussed by the Board;
  - (b) Whether they agree in principle with the proposed revisions to Structure ED-1;
  - (c) To approve for exposure the proposed text set out in Structure ED-2; and
  - (d) For feedback on the draft BFAP and EM set out in **Agenda Items 3-G** and **3-H**

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up showing restructuring changes will be made available to show the changes to the final pronouncements which were approved/ released by IESBA in 2016.

<sup>10</sup> <http://www.ifac.org/publications-resources/exposure-draft-improving-structure-code-ethics-professional-accountants-phase>