

Meeting: IESBA CAG
Meeting Location: New York, USA
Meeting Date: March 6, 2017

Agenda Item G-1

Report Back—Structure of the Code

Objectives of Agenda Item

1. To note the report-back on the September 2016 CAG discussion.

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.
3. The Structure of the Code (Structure) project has 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 the 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.
5. A staff-prepared [Basis for Agreement in Principle](#) was released in January 2017. It summarizes the feedback received from respondents to Structure ED-1 and explains the rationale for the IESBA's decisions in agreeing in principle the new structure and drafting conventions for the Code, and the restructured text of Part A¹ 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

6. In January 2017, the IESBA released three Exposure Drafts (EDs) that are inter-related through the work on developing a restructured Code.³ Structure ED-2 comprises the restructuring of the text of

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*)

³ The January 2017 EDs are:

- [Improving the Structure of the Code of Ethics for Professional Accountants—Phase 2](#) (Structure ED-2);

several IESBA projects representing the majority of the remainder of the extant Code that was not included in Phase 1 of the Structure project.⁴ Structure ED-2 includes:

- Proposed restructured provisions in Part C of the extant Code, as revised in the [Close-off Document for Part C Phase 1 \(Part 2 - Professional Accountants in Business⁵ \(Sections 200-270\)\)](#)
 - Proposed restructured text of the NOCLAR pronouncement, [Responding to Non-compliance with Laws and Regulations⁶](#) (Sections 260 and 360, *Responding to Non-compliance with Laws and Regulations*)
 - Proposed restructured text of the Long Association (LA) [close-off document⁷](#) (Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*; and Section 940, *Long Association of Personnel with an Assurance Client*)
 - Proposed restructured provisions addressing restricted use reports⁸ (Section 800, *Reports that Include a Restriction on Use and Distribution*)
 - Proposed restructured text relating to Independence—Other Assurance Engagements (Part 4B, except for material relating to the provision of non-assurance services to assurance clients (see Safeguards section immediately below)).⁹
7. Structure ED-2 is open for comment through **May 25, 2017**. **CAG member organizations are strongly encouraged to respond to Structure ED-2**. Feedback from the formal responses to Structure ED-2 will be considered by the IESBA during its June and September 2017 meetings and a summary of the responses to Structure ED-2 will be presented at the September 2017 CAG meeting. The IESBA is targeting December 2017 for completion of the Structure project.
8. Structure ED-2 includes an Explanatory Memorandum with questions for respondents and a summary of the IESBA's deliberations in developing the proposed restructured Code. This

-
- [Proposed Revisions Pertaining to Safeguards in the Code—Phase 2](#) (Safeguards ED-2); and
 - [Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice](#) (Applicability ED).

Comments on Safeguards ED-2 and the Applicability ED are due by **April 25, 2017**. See report backs on the September 2016 CAG discussions about the Safeguards and Part C projects in **Agenda Item G-2** and **Agenda Item C** respectively.

⁴ Structure ED-2 does not include:

- Revised provisions related to the non-assurance services section of the extant Code that are set out in Safeguards ED-2; and
- Revised provisions related to Section 350, *Inducements*, of the extant Code, for which an approval for exposure is anticipated at the March 2017 IESBA meeting.

⁵ Extant Part C – *Professional Accountants in Business* as revised by the close-off document

⁶ Extant Sections 225 and 360, *Responding to Non-compliance with Laws and Regulations*

⁷ Revised provisions addressing long association in extant Sections 290 and 291, which the IESBA approved under the extant structure and drafting conventions in December 2016

⁸ Extant Section 290, *Independence – Audit and Reviews*, paragraphs 290.500 to 290.514 (Reports that Include a Restriction on Use and Distribution)

⁹ Extant Section 291, *Independence – Other Assurance Engagements*

Explanatory Memorandum forms part of the CAG reference materials, and is available to the Representatives in PDF format as well as via hyperlink.

Other

9. The proposed restructured Code, which will be renamed *International Code of Ethics for Professional Accountants (including International Independence Standards)*, will contain new requirements and revised provisions that the IESBA has already finalized. 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. 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.
10. Responsive to requests from respondents to Structure ED-1, a [compilation of the proposed restructured Code](#) is available at www.ethicsboard.org/restructured-code. The compilation includes the agreed-in-principle text of Phase 1 of each of the Structure and Safeguards projects, and the proposed texts issued for exposure in January 2017 under Phase 2 of the project ([Structure ED-2](#)), Phase 2 of the Safeguards project ([Safeguards ED-2](#)), and the Part C project ([Applicability ED](#)). A [mapping table](#) facilitates tracking of the changes from the extant Code to the proposed restructured Code.

September 2016 CAG Discussion

11. Below are extracts from the draft minutes of the September 2016 CAG meeting,¹⁰ and an indication of how the Task Force or IESBA has responded to CAG Representatives' comments.

Matters Raised	Task Force/IESBA Response
RECURRING LANGUAGE ABOUT THE REQUIREMENT TO APPLY THE CONCEPTUAL FRAMEWORK	
Mr. Dalkin complimented the Task Force on the project's progress but commented that the Code can sometimes seem repetitive because of frequent references to the conceptual framework. He agreed with the Task Force's observation that commonly, professional accountants (PAs) tend just to read the portion of the Code that applies to their specific situation rather than the whole Code. He supported the efforts aimed at developing an integrated Code. He added that it is important to achieve the right balance between the degree of repetition needed to provide guidance for PAs in	Support and points accepted. Mr. Thomson responded that the Task Force is focused on minimizing the repetition of material in the Code. He explained that the Guide to the Code (the Guide) provides guidance to assist users understand each part of the Code. The Guide states that in considering a particular topic it is necessary for a user to understand and apply Part 1 of the Code, which includes the requirement to comply with the fundamental principles (FPs) and apply the conceptual framework. He explained that, in addition to the material in the Guide, the introduction of each

¹⁰ The draft September 2016 CAG minutes will be approved at March 2017 IESBA CAG meeting.

Matters Raised	Task Force/IESBA Response
<p>each Part of the Code, while taking into account how the Code is read.</p>	<p>section of the Code will help users navigate across the Code to understand what is required. Mr. Thomson also explained that PAs will need to consider all the requirements and application material in the entire Section, including related subsections in order to ensure that they are aware of, and comply with, the provisions in the Code.</p> <p>See the agreed-in-principle text for Phase 1 of the Structure project.</p>
<p>RESPONSIBILITY FOR COMPLIANCE</p>	
<p>Ms. Elliott expressed support for the clarifications relating to the use of the word “firm.”</p>	<p>Support noted.</p>
<p>Ms. Molyneux expressed support for the Task Force’s more prominent discussion of independence in the conceptual framework and in Section 400, and was pleased to see that the description of independence continues to encompass “independence of mind” and “independence of appearance.” She observed that, although actual independence is important, public perceptions of independence were also relevant.</p>	
<p>Mr. Thompson expressed support for the Task Force’s revisions to better align the provision in the Code to the IAASB’s standards, in particular with regard the discussion about responsibilities for independence in the Code and in ISQC 1.¹¹</p>	<p>Support noted and point taken into account.</p> <p>Mr. Thomson noted that the IESBA and the IAASB are aware of their stakeholders’ expectations that their work and approaches be coordinated.</p>
<p>DISPROPORTIONATE OUTCOMES AND ETHICAL CONFLICT RESOLUTION</p>	
<p>Mr. Koktvedgaard commented that the Guide seemed to steer PAs to comply with the requirements in the Code and wondered whether it should focus more on compliance with the FPs. He observed that the accounting standards included provisions for “a true and fair view” and</p>	<p>Point taken into account.</p> <p>Mr. Thomson explained that disproportionate outcomes related to where users felt that there is a conflict in trying to comply with different aspects of the FPs. He also explained that the Code’s emphasis</p>

¹¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

Matters Raised	Task Force/IESBA Response
<p>asked whether the overarching requirement for PAs to comply with the FPs in the Code was intended to be equivalent to it.</p>	<p>was on the need to comply with the FPs and that the requirements and application material in the Code are to help achieve that.</p> <p>The material relating to disproportionate outcomes and ethical conflict resolution that was included in the Guide in Structure ED-1 has been moved to the body of the Code (see paragraphs 100.3 A2, and paragraphs 110.3 A2-A3 of the agreed-in-principle text).</p>
<p>AUDIT AND REVIEW</p>	
<p>Messrs. Dalkin and Mr. Hansen expressed support for the clarifications made in the body of the Code to explain that the term “audit” in the proposed restructured Code means “audit and review.”</p>	<p>Support noted.</p>
<p>THE GUIDE AND ELECTRONIC ENHANCEMENTS</p>	
<p>Ms. Molyneux inquired if the Task Force was anticipating the inclusion of supportive explanatory material such as case studies in the Guide, which in her view would be helpful to users of the Code. Ms. Elliott and Mr. Dalkin supported Ms. Molyneux’s suggestion.</p>	<p>Point noted.</p> <p>Mr. Thomson explained that the scope of the Task Force’s work was limited to restructuring the extant Code, but that there might be a need for a consideration of additional tools, such as case studies after the completion of the restructuring. He added that the Task Force had given consideration to whether tools and other resources should be developed to assist PAs and firms implement and adopt the proposed restructured Code more broadly. He noted that the Task Force had learned that some stakeholders are cautioning the IESBA against the development of materials such as case studies that interpret the Code because in their view the Code should stand on its own. Mr. Thomson wondered whether others, such as national standards setters and IFAC member bodies might also have a role in developing tools and other resources to support the implementation of the Code.</p>
<p>Mr. Dalkin cautioned against IESBA development of tools such as case studies given its role as a standard-setter. He was also of the view that PAs</p>	<p>Point noted.</p>

Matters Raised	Task Force/IESBA Response
<p>might overly rely on those tools and their use over time might inhibit PAs' appropriate exercise of professional judgment. He also commented that support materials might create confusion (e.g., by bringing into question whether certain concepts in the Code are not self-explanatory).</p>	<p>Mr. Thomson responded that the IESBA was aware of the potential benefits and pitfalls that might arise with developing tools and other resources. He observed that some of the more established IFAC member bodies have developed case studies which are publicly available. He added that consideration might be given to whether there is a role for the IESBA in facilitating the exchange of such information without issuing it at a board level, for example, through its regular meetings with national standard setters.</p>
<p>THE STATUS OF THE GUIDE AND APPLICATION MATERIAL</p>	
<p>Mr. Fortin commented that the Guide appeared to be more akin to a preface, and suggested that the Guide and the Preface be merged. He added that taking on his suggestion would have the advantage of having the placement of the Guide and Preface in the Code be more consistent with their placement in the IAASB's standards.</p> <p>Mr. Hansen questioned the purpose of the Guide (i.e., whether it was a preamble to the Code or user guide for the Code).</p> <p>Mr. Fortin commented that during the IAASB CAG meeting there was a discussion about the status of the application material within the standards and it was clarified that application material was not a requirement but was important to the proper application of the requirements in the IAASB's standards. He questioned whether there is a parallel between the positioning of the Guide within the Code and the status of requirements and application material in comparison to the IAASB's standards.</p>	<p>Points taken into account.</p> <p>Mr. Thomson explained that the Guide was intended to be a user guide for the Code. He added that the Guide was drafted from the perspective of a user unfamiliar with the Code and as such includes "signpostings" to help users navigate important topics. Mr. Thomson added that the Guide is not intended to add new material to the Code and is not a necessary component of the Code, but rather should be read as a standalone document.</p> <p>Mr. Gunn observed that the constructs being applied in the Code and the IAASB's standards are similar.</p> <p>Mr. Thomson explained that in developing Structure ED-1, the IESBA considered using the commonly used word "guidance" rather than "application material." The IESBA determined to use the term "application material" instead of "guidance" because the former denoted material relevant to the application of the requirements as opposed to material that was merely an optional consideration. Mr. Thomson explained that while application material is different from requirements, consideration of the application material is required by PAs in order for them to properly apply the requirements in the Code.</p>

Matters Raised	Task Force/IESBA Response
	<p>In finalizing Phase 1 of the project, the IESBA agreed to separate the Guide from the Code. Paragraphs 9-10 of the Guide set out in the agreed-in-principle text:</p> <ul style="list-style-type: none"> • Clarify that requirements paragraphs are designated with “R.” • Explain the relationship between requirements and any specific exceptions. <p>Paragraphs 7-8 of the Guide set out in the agreed-in-principle text include a “How to Use the Code” section that explains that:</p> <ul style="list-style-type: none"> • All of the requirements and application material in the Code are to be read and applied in the context of complying with the fundamental principles, applying the conceptual framework and, in relation to audit, review and other assurance engagements, being independent. • Proper application of a particular section of the Code requires knowledge and understanding of the relevant section and the entire text of Part 1. • The requirements and application material set out in any subsection are to be read in conjunction with the requirements and application material set out in the related section.
TITLE	
<i>Use of the Term “Professional”</i>	
<p>Mr. Koktvedgaard noted that the Code covers PAs as part of a professional organization and that dropping the word “professional” would shorten the title. Mr. Hansen supported Mr. Koktvedgaard’s view that the word “professional” was not a necessary inclusion in the Code’s title and noted that the title does not mention “firms.” Mr. Fortin felt that for continuity and consistency</p>	<p>Point taken into account.</p> <p>Mr. Thomson noted that although the IESBA considers the Code applicable to PAs, there are different views about what it means to be an “accountant” versus a “PA”. He explained that having the word “professional” in the title makes it clear that the Code is applicable to PAs, a term that is defined in the Code.</p>

Matters Raised	Task Force/IESBA Response
the word “professional” should be retained in the title.	See also paragraph 9 of this paper.
<i>Use of the Term “International”</i>	
Mr. Hansen expressed a view that the word “international” might be overused, bearing in mind that the Code is published by the International Ethics Standards Board for Accountants. Ms. Elliott commented that while the word “international” might not be necessary in the title of the Code, having it adds credibility with stakeholders and contributes to the Code’s brand. She suggested that the term “international” be retained.	Point taken into account. Mr. Siong noted that the IESBA had long deliberations about the use of the term “international” and agreed that it is very important to retain the word “international” in the Code’s title. It was not only because it would bring the Code up to par with other sets of international standards, for example, the standards of the IAASB, but also because the IESBA believes that having the word “international” in the title was important for branding a Code that is intended for global application. See also paragraph 9 of this paper.
<i>Other Matters</i>	
Mr. Koktvedgaard asked about whether there was a new acronym for the proposed restructured Code and suggested “ICEPA.”	Point taken into account. Mr. Thomson noted that the IESBA had agreed to the acronym “IIS” for the “International Independence Standards.”
Mr. Inuma asked whether the IESBA had considered using the word “Standard” versus “Code” in the title. Mr. Hansen agreed and commented that many people refer to documents such as the “Code” as a standard. He supported the use of parentheses in the second line of the title.	Point taken into account. Mr. Thomson explained that the Task Force’s expectation was that the document would continue to be referred to as the “Code” because of its longstanding tradition. He added that the reference to “International Independence Standards” in the title is intended to give it more prominence and brand recognition. See also paragraph 9 of this paper.

Material Presented – FOR IESBA CAG REFERENCE PURPOSES ONLY

- January 2017 IESBA Update, [Toward a Restructured Code of Ethics](#)
- Exposure Draft: [Improving the Structure of the Code of Ethics for Professional Accountants—Phase 2](#)
- Basis for Agreement in Principle: [Improving the Structure of the Code of Ethics for Professional](#)

[Accountants—Phase 1](#)

- Agreed-in-principle text: [Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1 and Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#)
- Staff-prepared [Compilation of Proposed Restructured Code](#) – As of January 2017
- Staff-prepared [Mapping Table](#) to the Compilation of Proposed Restructured Code – As of January 2017

Project History

Project: Structure of the Code

Summary

	CAG Meeting	IESBA Meeting
Project commencement	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 September 2016 December 2016
Phase 2 Exposure Draft/ Structure ED-2	January 2017 – May 25, 2017	

CAG Discussions: Detailed References

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</p>
-----------------------------	---

	final CAG meeting minutes (see section F).
Development of proposed international pronouncement (up to exposure of Phase 1)	<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>
Consideration of significant comments on Phase 1 Exposure Draft (up to agreement in principle)	<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 and B-1) and CAG meeting minutes at Agenda Item A.</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 and B-1) and CAG meeting minutes at Agenda Item A.</p>