

TOWARD A RESTRUCTURED INTERNATIONAL CODE OF ETHICS

The International Ethics Standards Board for Accountants (IESBA) has taken a major stride in the second and final phase of its Structure of the Code project (Structure project). Completion of this phase would bring to a close a project that was launched almost three years ago to widespread stakeholder support. The aim of the project is to comprehensively review the structure and drafting of the IESBA *Code of Ethics for Professional Accountants*[™] (the Code) to enhance its understandability and usability, thereby facilitating its adoption, effective implementation, consistent application, and enforcement.

December 2017 Completion

In December 2016, the IESBA completed the first phase of the Structure project. In clearing this important milestone, the IESBA agreed in principle the new structure and drafting conventions (Structure format) for the Code as well as the restructured text of Part A¹ and most of Part B² of the extant Code. At the same time, the IESBA completed the first phase of its project to review the clarity, appropriateness and effectiveness of the safeguards in the Code (Safeguards project), agreeing in principle enhancements to the conceptual framework underpinning the Code and its application to professional accountants (PAs) in public practice. Close coordination was a key ingredient in producing the successful outcomes of the first phases of these two projects, not only because the safeguards-related revisions needed to be drafted using the new Structure format but also because safeguards are pervasive throughout the Code.

The IESBA has now released for public comment exposure drafts (EDs) of the final phases of the two projects ([Structure ED-2](#) and [Safeguards ED-2](#)) as well as an accompanying ED relating to extant Part C of the Code ([Applicability ED](#)). Structure ED-2 packages restructuring proposals relating to:

- Remaining provisions in extant Part B that were not included under Phase 1 of the Structure project.³
- Provisions in extant Part C, as revised in the March 2016 [close-off document](#)⁴ for Phase 1 of the Part C project addressing PAs in business (PAIBs).
- The July 2016 pronouncement regarding non-compliance with laws and regulations ([NOCLAR](#)).
- The January 2017 [close-off document](#) for the Long Association project.

Arising from Phase 1 of the Safeguards project, certain safeguards-related conforming amendments are included in Structure ED-2 as these pertain to sections of the Code covered in that ED.

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 These include provisions relating to restricted use reports in extant Section 290, *Independence – Audit and Review Engagements* and the entirety of extant Section 291, *Independence – Other Assurance Engagements*.

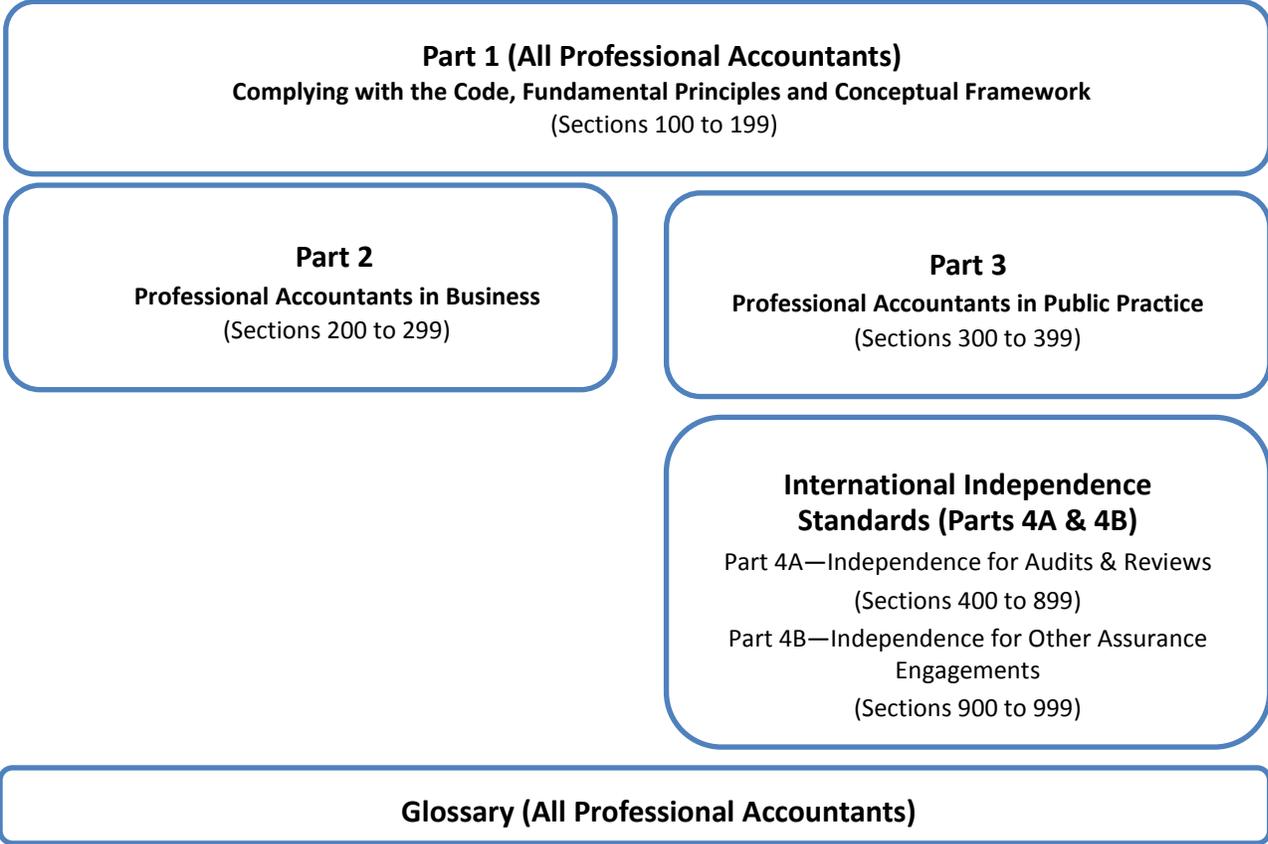
⁴ A “close-off document” refers to new or revised provisions developed under the extant structure and drafting conventions. These provisions will not be formally released until after they have been restructured using the Structure format.

Safeguards ED-2 sets out proposed revisions to clarify and enhance the safeguards-related provisions in the independence sections of the Code (extant Sections 290 and 291) pertaining to non-assurance services (NAS) provided to audit and other assurance clients. Safeguards ED-2 also sets out safeguards-related conforming amendments to sections of the Code that were covered in Phase 1 of the Structure project. Finally, the Applicability ED sets out proposals to clarify the applicability of the provisions in extant Part C (Part 2 of the restructured Code) to PAs in public practice. All three EDs have been developed using the Structure format and benefited from close coordination among the different work streams.

The IESBA anticipates finalizing any changes to the texts exposed in the three EDs in December 2017, taking into account respondents' feedback and input from its Consultative Advisory Group (CAG). At that time, it expects to be able to approve the final restructured Code incorporating the revised texts from the three EDs as well as the agreed-in-principle texts of Phases 1 of the Structure and Safeguards projects.

As part of the finalization process, the IESBA will review the Phase 1 Structure and Safeguards agreed-in-principle texts for any necessary conforming amendments and matters of general consistency vis-à-vis its conclusions relating to Phase 2 of each of these two projects. Any such refinements are not expected to change the substance of the texts already agreed in principle. To assist those who have already begun translation or other adoption activities, any changes to the agreed-in-principle texts will be shown in marked text and made available on the IESBA website within two weeks of their approval by the IESBA.

An overview of the proposed restructured Code, which will carry the new title *International Code of Ethics for Professional Accountants (including International Independence Standards)*, is set out below.



Completion of the restructured Code will result in many improvements which go beyond enhancements to the understandability and usability of the Code through application of the Structure format. **They include significant and important new requirements and substantively revised provisions in several sections of the Code addressing NOCLAR, long association, safeguards and issues relating to PAIBs (such as pressure to breach the fundamental principles). These revisions are aimed at enhancing ethical conduct, including independence where applicable, in a variety of respects.** Those revisions were proceeding concurrently with, or had been finalized during, the Structure project.

The [NOCLAR](#) provisions were released in July 2016 under the extant structure and drafting conventions and become effective July 15, 2017. For the other revisions, the IESBA determined to align the timing of their release with that for the restructured Code so that they could be restructured using the Structure format, but without changing their meaning. This enables all the restructured provisions to be packaged for release at the same time. This approach also took into account the pervasiveness of safeguards and the related concepts throughout the Code, as well as stakeholder concern about piecemeal changes to the Code that increase the burden in terms of adoption and implementation.

Subject to completion of the restructured Code by December 2017 and approval by the Public Interest Oversight Board (PIOB), the IESBA anticipates issuing the restructured Code by the end of March 2018.

The IESBA is proposing that, except for restructured Sections 540⁵ and 940⁶ relating to the long association provisions as noted below:

- **Parts 1, 2, 3 and 4B of the restructured Code be effective on June 15, 2019.**
- **Part 4A of the restructured Code be effective for audits of financial statements for periods beginning on or after June 15, 2019.**

Subject to the transitional provision below, which is explained in the [Basis for Conclusions](#) for the revised long association provisions, the IESBA has determined that:

- **Section 540 be effective for audits of financial statements for periods beginning on or after December 15, 2018.**
- **Section 940 be effective as of December 15, 2018.**

Paragraph R540.18 will have effect only for audits of financial statements for periods beginning prior to December 15, 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for engagement partners in those jurisdictions where the legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.⁷

In proposing the June 15, 2019 effective date, the IESBA has given due regard to the need for adequate time for adoption and implementation activities, including translation, and the fact that the restructured Code will contain substantive changes in a number of areas. Until the restructured Code becomes effective, the extant Code continues to apply.

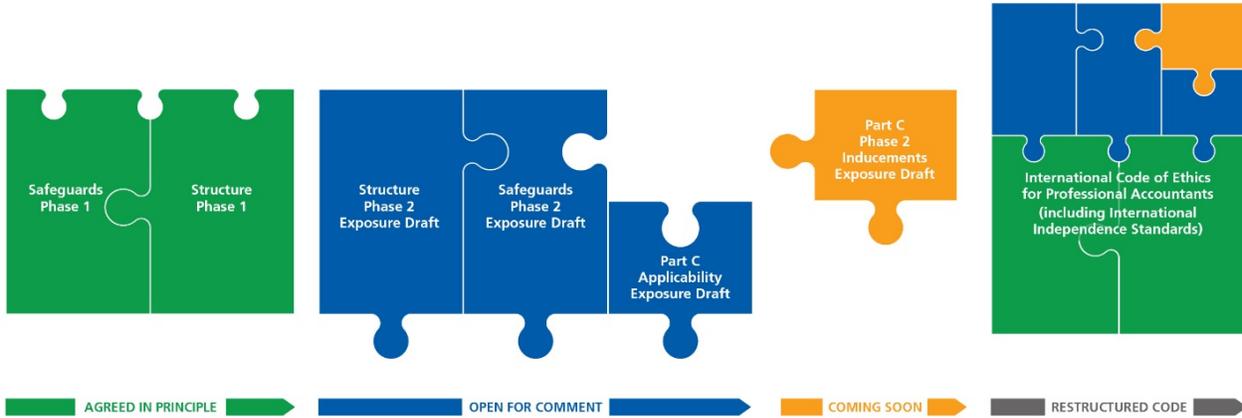
⁵ Proposed Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*

⁶ Proposed Section 940, *Long Association of Personnel with an Assurance Client*

⁷ The IESBA has committed to review during this transitional period Sections 540 and 940 of the restructured Code to take account *inter alia* of relevant legislative and regulatory developments as well as experience of the application of the sections in practice.

Highlights of the main improvements finalized to date that will be reflected in the restructured Code are set out in the Appendix.

The IESBA is progressing revision work on one further section of the Code under Phase 2 of its Part C project addressing the topic of inducements in relation to PAIBs. To avoid delaying completion of the Structure project, this work stream is proceeding separately under its own timetable but is using the Structure format for any proposed revisions. Once finalized, the revised Part C Phase 2 provisions will be added to the restructured Code.



Implementation Considerations

Many national standards setters, regulators and oversight bodies, IFAC member bodies, and firms have been following closely the development of the restructured Code, including revisions relating to the Safeguards, NOCLAR, Long Association and Part C projects. Many of them have already started their review of the upcoming changes by commenting on EDs as the restructuring work progressed or engaging in dialogue with IESBA representatives through the IESBA’s outreach program. Many also have already made substantial progress in updating their national material for recently issued revisions, particularly NOCLAR. They will therefore be well placed to plan or extend steps to ensure effective implementation of the restructured Code. Nevertheless, all those with responsibilities relating to PAs’ compliance with the Code need to consider implementation issues as soon as practicable.

The IESBA emphasizes the importance of successful implementation of the restructured Code and urges stakeholders not to underestimate the effort required to achieve this.

Specific implementation considerations will vary by jurisdiction and by stakeholder group. Nevertheless, there are some general considerations that may be relevant to all those responsible for successful implementation:

National Standard Setters

- Finalization of adoption or convergence plans, including process and timetable considerations
- Finalization of arrangements for translation if required and related timetables
- Development of implementation support material to meet specific national needs

- Communication of adoption and implementation activities and related timetables to the local profession and other stakeholders to facilitate timely preparation for the changes coming into force

Regulators and Oversight Bodies

- Review of recent and upcoming changes to the Code where the Code has the force of law or regulation, and finalization of plans for related internal or external communication activities
- Development or updating of inspection policies and methodologies, and related internal training programs

IFAC Member Bodies

- Development, or updating, of continuing professional development courses and related training materials
- Updating of relevant prequalification programs
- Updating of helpdesk resources

Firms

- Review of internal policies and methodologies for any necessary changes, and timetable for related implementation
- Development, or updating, of training programs
- Internal communication activities and related timetables

To facilitate review of the upcoming changes to the Code as well as timely translation and other implementation activities, the IESBA has made available on its website a staff-prepared [compilation](#) of the proposed restructured Code that includes the agreed-in-principle texts of Phase 1 of the Structure and Safeguards projects, and the proposed texts in Structure ED-2, Safeguards ED-2 and the Applicability ED. Also, to facilitate review of proposals currently open for public comment, the IESBA has made available on its website a number of other [resources](#), including close-off documents approved by the PIOB, Basis for Agreement in Principle documents that explain the basis for the IESBA's conclusions in agreeing in principle the texts of Phase 1 of the Structure and Safeguards projects, and a document that maps extant provisions to proposed restructured provisions.

The IESBA believes that the restructured Code will represent a decisive and broad upgrade to the extant Code in terms of readability, understandability and ease of use. Importantly, it will include more robust and comprehensive provisions addressing NOCLAR, long association, safeguards and issues relating to PAIBs such as pressure, as well as greater emphasis on compliance with the fundamental principles of the Code. The IESBA also believes that timely delivery of the restructured Code will be a major systemic contribution to the public interest. The IESBA is very grateful to all those who have contributed to this effort or remain engaged in the final stage of the process.

Looking Ahead

Recognizing rapidly changing patterns of work and trends in the digitization and sharing of information, the IESBA has committed to explore how best to utilize the capabilities of modern technology to bring greater access and ease of use to its standards through an electronic Code (e-Code). The IESBA has already

taken an initial step in that direction by making available on its website a [version](#) of an e-Code with basic features such as hyperlinked content and pop-up definitions of key terms. The IESBA will explore what additional features and tools could be developed, leveraging the new structure of the Code, that will enhance the visibility and reinforce the value of the Code as a foundation of trust in the accountancy profession.

Highlights of Main Improvements in the Proposed Restructured Code to Date

In addition to the main improvements relating to the NOCLAR provisions, which are outlined in the NOCLAR [At-A-Glance](#) document, the main improvements finalized to date that will be reflected in the restructured Code include the following:

From the Structure Project

- Increased prominence of the requirement to comply with the fundamental principles and apply the conceptual framework
- Requirements (in paragraphs identified with an ‘R’) distinguished from other material
- Application material (paragraphs identified with ‘A’) generally positioned next to the relevant requirements
- Increased clarity of responsibility for compliance with the Code with respect to firms and network firms, and in conjunction with firm policies and procedures, individual PAs within firms
- Increased clarity in drafting, including simpler and shorter sentence construction; use of more “plain English”
- Structural improvements, including more self-contained sections and subsections
- Independence sections recharacterized as *International Independence Standards*
- Enhanced glossary of definitions and descriptions of key terms
- A new *Guide to the Code*

From the Safeguards Project

- An enhanced conceptual framework that, among other matters:
 - Requires identified threats to be addressed by eliminating the circumstances creating the threats, applying safeguards, or declining or ending the specific professional activity
 - Clarifies safeguards in the extant Code through a new description of the concept of a “safeguard”
 - Includes new requirements to assist PAs in evaluating and addressing threats, including a “step back” requirement for an overall conclusion
- Recharacterization of certain safeguards in the extant Code as conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance a PA acting ethically, and which might also impact the identification and evaluation of threats
- Improved examples of actions that might be safeguards, more closely correlated to identified threats
- Emphasis that in some situations, threats can only be addressed by declining or ending the specific professional activity
- New descriptions of the concepts of “reasonable and informed third party” and “acceptable level”

From the Long Association Project

- A strengthened partner rotation regime for audits of public interest entities, including:
 - Five-year cooling-off period for engagement partners (EPs)
 - Three-year cooling-off period for engagement quality control reviewers (EQCRs)
 - New provisions addressing service in a combination of key audit partner (KAP) roles
 - A prohibition on the audit engagement team consulting with a former EP or EQCR on a technical or industry-specific issue during the cooling-off period if that individual is also, or becomes, a technical specialist within his or her firm
 - Additional restrictions on permissible activities during the cooling-off period, including acting as a “client relationship” partner
- A new requirement to obtain the concurrence of those charged with governance for a KAP to serve:
 - An additional year on a PIE audit beyond the maximum seven-year time-on period where, due to unforeseen circumstances, the individual’s continuity is particularly important for audit quality
 - An additional two years on a PIE audit where the individual has served an audit client as a KAP for six or more years and the client becomes a PIE
- Strengthened general provisions addressing long association for all audits
- Strengthened general provisions addressing long association with respect to other assurance engagements

From the Part C Project

- More comprehensive provisions addressing PAIBs’ responsibilities when preparing or presenting information, including:
 - A more explicit requirement for PAIBs to record, maintain, prepare, approve or present information in accordance with the fundamental principles
 - A new requirement for PAIBs not to exercise discretion when preparing or presenting information with the intention of misleading or influencing contractual or regulatory outcomes inappropriately
- Strengthened provisions regarding how a PAIB can disassociate from misleading information
- New requirements and application material to assist PAIBs in identifying and responding to pressure that could result in a breach of the fundamental principles, including practical examples to illustrate different situations in which such pressure might arise
- Increased emphasis on the role of more senior PAIBs in influencing policies, decisions and actions within employing organizations
- Increased emphasis on the role PAIBs can play to encourage and promote an ethics-based culture within employing organizations, taking into account their positions and levels of seniority in the organizations

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About the IESBA

The IESBA is a global independent standard-setting board. Its objective is to serve the public interest by setting high-quality ethics standards for professional accountants worldwide and by facilitating the convergence of international and national ethics standards, including auditor independence requirements, through the development of a robust, internationally appropriate Code.

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants (IFAC).

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