

Agenda Item 3 Supplement 1

Structure ED-1 – Compilation of Extracts from Respondents’ Suggested Changes of Meaning

NOTE: This table is an extract of the mapping table that formed the supplemental information to the December 2015, Exposure Draft, [Improving the Structure of the Code of Ethics for Professional Accountants - Phase 1](#) (Structure ED-1). It illustrates respondents’ views regarding some of the proposals in Structure ED-1 that they view as possible changes of meaning to the extant Code.

The comments in the “Task Force Notes” column in this supplement represent current preliminary Task Force’s proposals and may be subject to further refinements as the work of the Structure Task Force progresses. A list identifying the respondents to Structure ED-1 who are included in this table is set out in the Appendix to this supplement.

Extant Code		Exposure Draft	Comments from Respondents on possible change of meaning	Task Force Notes
PART A – GENERAL APPLICATION OF THE CODE				
100.1	A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant’s responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a professional accountant shall observe and comply with this Code. If a professional accountant is prohibited from complying with certain parts of this Code by law or regulation, the professional	100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A professional accountant’s responsibility is not exclusively to satisfy the needs of an individual client or employer. Therefore, the Code contains requirements and application material for accountants regarding matters that are integral to acting in the public interest. 100.3 A professional accountant, acting in the public interest,	ICAEW Paragraph 100.1 wording has changed and this presents certain difficulties, the implication being that the responsibility to act in the public interest rests with the individual accountant rather than with the profession. Given that the Code itself is set to take into account the profession’s responsibility in respect of the public interest, members will discharge their individual public interest responsibility if they comply with the five fundamental principles and other detailed requirements that are in the Code. The view of ICAEW is discussed further in our proposed guidance to accompany	The Task Force believes that this possible meaning change has been addressed by reverting to extant Code language as far as possible within the new structure.

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	accountant shall comply with all other parts of this Code.	<p>shall comply with the Code. There might be circumstances when laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.</p> <p>1. The Code sets out fundamental principles of ethics and standards for professional accountants, reflecting the profession's recognition of its public interest responsibilities. The fundamental principles are: integrity; objectivity; professional competence and due care; confidentiality; and professional behavior. The standards are established by the application of the fundamental principles to specific circumstances.</p>	the Code of Ethics. We believe the previous wording of 100.1 was preferable.	
100.4	The use of the word "shall" in this Code imposes a requirement on the	7. The word "shall" in the Code imposes an obligation on the	ICAS	No change made because this is

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	professional accountant or firm to comply with the specific provision in which “shall” has been used. Compliance is required unless an exception is permitted by this Code.	professional accountant or firm to comply with the specific provision in which “shall” has been used. “Shall” is used to indicate a requirement and requirements are designated with an “R”.	Paragraph 7 - This states that “shall” means a requirement. In the extent version of the Code, Paragraph 100.4 says compliance is required unless an exception is permitted. There is no equivalent text here. There is possibly a need to refer to the content of paragraph R100.3 in this context i.e. compliance is required unless local laws or regulations preclude compliance with certain parts of the Code.	introductory material explaining what “shall” means, not establishing the requirement for compliance unless precluded.
100.19	A professional accountant may be required to resolve a conflict in complying with the fundamental principles.	11. A professional accountant might face a situation where compliance with one fundamental principle conflicts with one or more other fundamental principles. In those situations, the accountant is encouraged to consult. Appropriate parties for consultation might include one or more of the following: <ul style="list-style-type: none"> • Others within the firm or employing organization. • Those charged with governance. • A professional body. 	SAICA A section of the extant code that provided important process guidance in Ethical Conflict Resolution have not been carried forward e.g.100.19 to 100.24 of the extant code (2015 edition) which we believe is a serious omission. These sections deal with the ethical conflict resolution and in our view the dilution of the information from the Code is not acceptable. We would like to request that the detail in these sections be re-included in the Code.	Text modified and moved from the Guide to the draft restructured Code.
			DTTL The extant Code describes what is meant by a conflict of interest (threats to objectivity and potentially other	These are two different types of conflict which is why this material is addressed as

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		<ul style="list-style-type: none"> • A regulator. • Legal counsel <p>The accountant is usually able to obtain guidance on ethical issues without breaching the fundamental principle of confidentiality. However,</p>	<p>fundamental principles). Paragraph 11 in the ED states complying with one fundamental principle may conflict with another fundamental principle. This is completely different conceptually.</p>	<p>“Exceptional Circumstances” (now reverted to “Ethical Conflict Resolution”) and not in Section 310, Conflicts of Interest.</p>
100.20	<p>When initiating either a formal or informal conflict resolution process, the following factors, either individually or together with other factors, may be relevant to the resolution process:</p> <p>(a) Relevant facts;</p> <p>(b) Ethical issues involved;</p> <p>(c) Fundamental principles related to the matter in question;</p> <p>(d) Established internal procedures; and</p> <p>(e) Alternative courses of action.</p> <p>Having considered the relevant factors, a professional accountant shall determine the appropriate course of action, weighing the consequences of each possible course of action. If the matter remains unresolved, the professional accountant may wish</p>	<p>such guidance does not relieve the accountant from the responsibility to apply professional judgment to resolve the conflict or, if necessary, disassociate from the matter creating the conflict.</p>	<p>When obtaining guidance on ethical issues, the extant Code states advice can generally be obtained without breaching confidentiality when the matter is discussed with a professional body on an anonymous basis or with a legal adviser under the protection of legal privilege. These two concepts are excluded from the restructured Code and are important to describe why confidentiality would not be breached.</p>	<p>Text modified and moved from the Guide to the draft restructured Code.</p>

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	to consult with other appropriate persons within the firm or employing organization for help in obtaining resolution.		

Extant Code	Exposure Draft	Comments from Respondents on change of meaning	Notes	
SECTION 100 Introduction and Fundamental Principles				
100.5	<p>A professional accountant shall comply with the following fundamental principles:</p> <p>(a) Integrity – to be straightforward and honest in all professional and business relationships.</p> <p>(b) Objectivity – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.</p> <p>(c) Professional Competence and Due Care – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.</p> <p>(d) Confidentiality – to respect the confidentiality of information acquired as a result of professional</p>	<p>110.1 There are five fundamental principles of ethics for professional accountants:</p> <p>(a) Integrity – to be straightforward and honest in all professional and business relationships.</p> <p>(b) Objectivity – to make professional or business judgments without bias, conflict of interest or undue influence of others.</p> <p>(c) Professional Competence and Due Care – to:</p> <p>(i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional</p>	<p>EYG</p> <p>For example, new provision 110.1(b) (extant 100.5) which is repeated as a requirement in R112.1 formerly read as "... to not allow.... undue influence of others to override.... judgments." but now reads "... to make judgments without.... undue influence of others." The new clause could be read as the professional accountant being prohibited from unduly influencing others, rather than to not being unduly influenced by others as would be the intent. Accordingly, the new clause should say "... without being unduly influenced by others."</p>	<p>Possible meaning change has been addressed by reverting to extant Code language.</p>

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	<p>and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.</p> <p>(e) Professional Behavior – to comply with relevant laws and regulations and avoid any action that discredits the profession.</p>	<p>service, based on current developments in practice, legislation and techniques; and</p> <p>(ii) Act diligently and in accordance with applicable technical and professional standards.</p>		
		<p>(d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.</p> <p>(e) Professional Behavior – to comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know might discredit the profession.</p>	<p>IRBA</p> <p>The definition of confidentiality in the Code has been amended. The prohibition on disclosure has been removed. The prohibitions on improper use have been removed. The original definition must be reinstated, as it is commonly applied in disciplinary matters</p>	<p>The additional material is included in the subsection on Confidentiality.</p>
<p>Paragraphs 100.6 to 100.9 are within the scope of the Safeguards Project – Mapping of the text is in the Safeguards Exposure Draft 1</p>				
100.10		<p>R100.4 A professional accountant who identifies a breach of</p>	<p>FEE</p> <p>Regarding R100.4, which corresponds to 100.10 of the extant Code, we</p>	<p>This section reflects the language in extant Code as related to breaches</p>

		<p>the Code shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountants shall also:</p> <p>(b) Take whatever actions might be available, as soon as possible, to satisfactorily address the consequences of the breach; and</p> <p>(c) Determine whether to report the breach to those who might have been affected by it, a professional body or a regulator.</p> <p>100.4 A1 Subsections 404 and 902 address a breach of an independence requirement.</p>	<p>question the move of this paragraph to the Introduction of Code. It should be included in section 110 as it is a requirement for professional accountants. In addition, this is a good opportunity to introduce a reference to actions to stop the breach. Today, the professional accountant is required to address the consequences of the breach and determine whether to report the breach, but no specific action must be taken to stop the activity that causes the breach.</p>	<p>other than independence breaches (which are addressed separately in Section 400). To make the suggested change would change the meaning of the Code and is outside the project's scope. This has been noted by the Task Force as a matter for board attention.</p>
			<p>ICAS</p> <p>We question whether this paragraph has a slightly different message from that contained in current Section 100.10 which states: "A professional accountant may inadvertently violate a provision of this Code. Depending on the nature and significance of the matter, such an inadvertent violation may be deemed not to compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied."</p> <p>The current wording relates to a specific professional accountant who may inadvertently have violated a provision of the Code. The new wording potentially</p>	<p>The Task Force believes the language as drafted accurately reflects the relevant extant Code paragraphs.</p>

			<p>encompasses other professional accountants who may discover a breach of the Code. The new provision also appears to be more detailed.</p>	
			<p>DTTL The extant Code in paragraph 100.10 provides two avenues to responding to a breach: it refers first to Sections 290 and 291 for requirements relating to a breach of an independence provision (which refers to actions the firm must take) and second, the requirements of a professional accountant if they identify a breach of another section of the Code. R100.4 significantly expands the current requirement, making the professional accountant who identifies any breach of the Code responsible for the actions to be taken.</p>	<p>Text modified to clarify the difference between the provisions that apply to independence breaches and other breaches.</p>
			<p>IESBA Board Member December 2016 Board meeting This reads as “any breach from anybody”</p>	<p>The Task Force does not believe that this is a change of meaning from extant Code, but it does raise a follow on concern about whether a professional accountant should be required to report breach by another professional accountant. This has been noted by the Task Force as a</p>

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				matter for board attention as it is outside the project's scope.
		100.4 A1 Subsections 404 and 902 address a breach of an independence requirement.		
Paragraphs 100.12 to 100.16 are within the scope of the Safeguards Project				
100.19	A professional accountant may be required to resolve a conflict in complying with the fundamental principles.		IRBA We note that ethical conflict resolution has been included in the Guide rather than in the Code. We note that this move may be problematic in the future as the status of the Guide is unclear. We further note that the useful information contained in 100.20 (a)-(e) has been deleted. We see no good reason for the structure project to be making this change and should be reinstated to the Code.	The ethical conflict resolution paragraphs have been returned to the body of the Code.
SECTION 110 Integrity				
		111.1 A1 Integrity implies fair dealing and truthfulness.	IRBA It seems odd that this description of integrity is not incorporated in the requirement. We propose that integrity be incorporated in the requirement (R111.1) that precedes it.	The ED text reflects the extant Code. Making this change would change meaning and be outside project scope.
SECTION 120 Objectivity				

120.1	<p>The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.</p>	<p>R112.1 A professional accountant shall comply with the fundamental principle of objectivity which requires an accountant to make professional or business judgments without bias, conflict of interest or undue influence of others.</p>	<p>IDW</p> <p>Section 120 of the extant Code (Objectivity) refers to an obligation for professional accountants "...not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others". The word "compromise" implies that a point may be reached at which any bias, conflict of interest or undue influence of others has reached a magnitude at which a particular judgement can no longer be regarded as sound, i.e., the judgement is compromised. This is the sort of circumstance that the Code's threats and safeguards approach was designed to deal with.</p> <p>In deleting the word "compromised" in relation to judgement, proposed R112.1 interprets this as a requirement "to make professional or business judgements without bias, conflict of interest or undue influence of others." In practice it will be illusory to make a judgement with a <u>complete</u> lack of bias etc. Indeed R112.2, 112.2A1 seem to contradict proposed R112.1 in recognizing this: "...if a circumstance or relationship unduly (in</p>	<p>Text modified to reflect this comment.</p>
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			<p>italics for emphasis) influences the accountant's professional judgement".</p> <p>We therefore suggest R112.1 be reworded in line with the extant wording so as to retain reference to potential compromise of judgement, as follows: "...not to make <u>compromise</u> their professional or business judgements without <u>because of</u> bias, conflict of interest or the undue influence of others."</p>	
SECTION 130 Professional Competence and Due Care				
130.1	<p>The principle of professional competence and due care imposes the following obligations on all professional accountants:</p> <p>(a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and</p> <p>(b) To act diligently in accordance with applicable technical and professional standards when performing professional activities or providing professional services.</p>	<p>R113.1</p> <p>A professional accountant shall comply with the fundamental principle of professional competence and due care which requires an accountant to:</p> <p>(a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional</p>	<p>IDW</p> <p>In drafting certain proposed subsections the IESBA has added text, which sharpens the extant obligation. For example, considerable new text (shown in italics) appears to have been added in para. R113.1, beyond the extant Code: "...attain and maintain professional knowledge and skill ... based on current developments in practice, legislation and techniques ...". In our opinion, adding this degree of detail may change the obligation, which is beyond the remit of this project. In particular, we do not believe it is appropriate for the IESBA to require knowledge and skill be based on "current techniques" without any explanation of what this is intended to</p>	Text modified to reflect this comment in part.

		<p>service, <u>based on current developments in practice, legislation and techniques</u>; and</p> <p>(b) Act diligently and in accordance with applicable technical and professional standards.</p>	<p>mean. For example, it would be inappropriate to include techniques such as data mining software at the current time, given their current relative exclusivity to part of the profession.</p>	
SECTION 140 Confidentiality				
140.1	<p>The principle of confidentiality imposes an obligation on all professional accountants to refrain from:</p> <p>(a) Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and</p> <p>(b) Using confidential information acquired as a result of professional and</p>	<p>R114.1</p> <p>A professional accountant shall comply with the fundamental principle of confidentiality which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall: ...</p> <p>(d) Not disclose confidential information acquired as a result of</p>	<p>IRBA</p> <p>We note that there has been a change regarding with whom confidential information can be discussed.</p> <p>We note that “outside the firm” is clear and understandable, while “third parties” has not been defined. The change in wording may lead readers to question if there has been a change in the confidentiality requirements of the Code.</p>	<p>Text modified to reflect the language of the extant Code.</p>

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	<p>business relationships to their personal advantage or the advantage of third parties.</p>	<p>professional and business relationships to third parties without proper and specific authority, unless there is a legal or professional duty or right to disclose;</p> <p>(e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;</p>		
<p>140.7</p>	<p>The following are circumstances where professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:</p>	<p>114.1 A2 The following are circumstances where professional accountants might be required to disclose confidential information</p>	<p>APESB The use of 'might' in paragraph 114.1 A2 is inappropriate if a professional accountant is required to disclose confidential information by law.</p>	<p>Text has been modified to use "are or might be required to disclose" A paragraph requiring "compliance unless precluded by law" would change meaning and be</p>

	<p>(a) Disclosure is permitted by law and is authorized by the client or the employer;</p> <p>(b) Disclosure is required by law, for example:</p> <ul style="list-style-type: none"> (i) Production of documents or other provision of evidence in the course of legal proceedings; or (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and <p>(c) There is a professional duty or right to disclose, when not prohibited by law:</p> <ul style="list-style-type: none"> (i) To comply with the quality review of a member body or professional body; (ii) To respond to an inquiry or investigation by a member body or regulatory body; (iii) To protect the professional interests of a professional 	<p>or when such disclosure might be appropriate:</p> <p>(a) Disclosure is required by law, for example:</p> <ul style="list-style-type: none"> • Production of documents or other provision of evidence in the course of legal proceedings; or • Disclosure to the appropriate public authorities of infringements of the law that come to light; <p>(b) Disclosure is permitted by law and is authorized by the client or the employer; and</p>		<p>outside the project scope.</p>
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	<p>accountant in legal proceedings; or</p> <p>(iv) To comply with technical standards and ethics requirements.</p>	<p>(c) There is a professional duty or right to disclose, when not prohibited by law:</p> <p>(i) To comply with the quality review of a professional body;</p> <p>(ii) To respond to an inquiry or investigation by a professional or regulatory body;</p> <p>(iii) To protect the professional interests of an accountant in legal proceedings; or</p> <p>(iv) To comply</p>		
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			with technical standards and ethics requirements.		
SECTION 150 Professional Behavior					
150.1	The principle of professional behavior imposes an obligation on all professional accountants to comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know may discredit the profession. This includes actions that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude adversely affects the good reputation of the profession.	R115.1	A professional accountant shall comply with the fundamental principle of professional behavior which requires an accountant to comply with relevant laws and regulations and avoid any action that the accountant knows or should know might discredit the profession.	IDW	The proposed restructured Code includes a prominent and a more robust description of reasonable and informed third party concept that retains the words “weighing all the specific facts and circumstances available to the professional accountant at that time” This enhanced description is included in the glossary and the conceptual framework set out in Section 120 (see Agenda Item 2-B) which specifies an approach for identifying threats to compliance with the fundamental principles, evaluating
		115.1 A1	Actions that might discredit the profession include actions that a reasonable and informed third party would be likely to conclude adversely affect the good reputation of the profession.		

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		<p>fully and the need to introduce cross-references thereto.</p> <p>ICAS</p> <p>We note that this paragraph drops the wording “weighing all the specific facts and circumstances available to the professional accountant at that time,” which is contained in current paragraph 150.1. Is this not important wording because it would not be fair to judge someone on the basis of information which only came to light after the event? We believe that this paragraph should reflect the wording of new paragraph 120.4 A1 re reasonable and informed third party.</p>		<p>the threats identified and addressing those threats.</p>
			<p>FEE</p> <p>Another example is the fundamental principle of professional behaviour. In the extant Code there is an inconsistency between subparagraph e) of 100.5 that stated “to comply with relevant laws and regulations and avoid <i>any action that discredits the profession</i>” and 150.1 which stated formerly “to comply with relevant laws and regulations and avoid <i>any action that the professional accountant knows or should know may discredit the profession</i>”. In the proposed Code, IESBA took this last definition, replacing “may” for “might”,</p>	<p>The Task Force believes that the language should reflect the “more stringent” (knows or should know) language in extant Code paragraph 150.1. The Task Force believes that “may” and “might” do not suggest different levels of likelihood.</p>

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			<p>making the principle more stringent in a way that the avoidance relates to any action that “the professional accountant knows or should know might discredit the profession”. We think that it is the definition in subparagraph e) of 100.5 that should be kept and urge IESBA to make it consistent in the Code.</p> <p>ICAEW</p> <p>The new definition of professional behaviour now reflects the discussion that was previously in 150.1. However we note that ‘avoid any action that the professional accountant knows or should know might discredit the profession’ is considerably wider than ‘avoid any action that discredits the profession’. It is not clear whether the definition has been changed to address the previous inconsistency between paragraph 100.5 and paragraph 150.1 or to address a perceived problem with the definition itself. We suggest that the definition itself remains as it was.</p>	
Extant Code		Exposure Draft		Comments
SECTION 200 Introduction				
200.2	A professional accountant in public practice shall not knowingly engage in any business, occupation, or activity that impairs	R300.2	A professional accountant shall comply with each of the fundamental principles	<p>IRBA</p> <p>Proposed wording: R300.2</p> <p>The Task Force agrees and is of the view that this language is applicable to all</p>

	<p>or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.</p>	<p>and apply the conceptual framework set out in Section 120 to eliminate threats to compliance with those fundamental principles or to reduce them to an acceptable level.</p>	<p><u>A professional accountant shall not knowingly engage in any business, occupation or activity that would be incompatible with the fundamental principles of integrity, objectivity or professional behaviour.</u></p> <p>Though this has been retained as a requirement, the language does not carry the same gravity as in the extant Code. This is due to a prohibition now being written as a requirement.</p> <p>It would also be helpful to reference the specific applicable fundamental principles rather than broadly referencing the fundamental principles.</p> <p>We have proposed an amendment.</p>	<p>professional accountants, not just professional accountant in public practice. Accordingly, this material is now positioned in Subsection 115, <i>Professional Behaviour</i>. Additionally a reference has been added to the discussion of the fundamental principles in Section 110.</p>
<p>SECTION 210 Professional Appointment</p>				
<p>210.1</p>	<p>Before accepting a new client relationship, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behavior may be created from, for example, questionable issues associated with the client (its owners, management or activities).</p>	<p>R320.3 A professional accountant shall apply the conceptual framework set out in Section 120 to a professional appointment.</p>	<p>IRBA</p> <p>The phrase “facts and circumstances” is not consistently used.</p> <p>We note that the phrase “facts and circumstances” follows through from the IESBA Safeguards Project and is a reasonable change. However, this phrase has not been used consistently in the following paragraphs: R120.4, 300.3 A1, R310.8, 310.11 A1, 321.5 and 410.3 A9</p>	<p>As noted in the Safeguards Explanatory Memorandum paragraph 18, “facts and circumstances” includes a variety of factors and therefore uses language as appropriate to the context rather than the more generic facts and circumstances in every case. As part of its</p>

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				Phase 2 work, the Safeguards Task Force plans to develop conforming changes as needed to align with conclusions reached in the final Safeguards ED-1.
		320.2 Accepting a new client or a new engagement might create threats to compliance with the fundamental principles.	<p>DTTL Accepting new clients or new engagements doesn't automatically create threats to complying with the fundamentals. The key is to evaluate if a threat is created.</p> <p>IRBA 210.1 The context of the extant Code is missing in the restructured Code and should be reinstated.</p>	Text modified in R120.3 to add the words "Before accepting a professional appointment.
210.2	Client issues that, if known, could threaten compliance with the fundamental principles include, for example, client involvement in illegal activities (such as money laundering), dishonesty or questionable financial reporting practices.	320.3 A1 In some circumstances, acceptance of a new client relationship might create threats to integrity or professional behavior. This might arise, for example, where the client, its owners or management are involved in illegal activities, dishonesty or questionable financial reporting practices.	<p>Assirevi According to our analysis, also the transposition of paragraph 210.2 to paragraph 320.3 A1, behind an apparently formal variation, would appear to imply a significant change of approach. Actually, the interpolated sentence "if known" has been deleted in paragraph 320.3 A1. A deletion of this kind could have quite important consequences, because according to the approach taken in the rephrased</p>	Text modified.

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			<p>paragraph, the assessment of the risks to integrity and "professional behaviour" would in the end be conducted, at the time the engagement is accepted, weighing all the possible threats regardless of whether the auditor is or is not aware of them.</p>	
210.4	<p>Where it is not possible to reduce the threats to an acceptable level, the professional accountant in public practice shall decline to enter into the client relationship.</p>		<p>ICAS</p> <p>Where is the equivalent to current section 210.4 (and second paragraph of section 210.11) which states: "Where it is not possible to reduce the threats to an acceptable level, the professional accountant in public practice shall decline to enter into the client relationship." This may be because this content is covered in Section R120.7 "Addressing threats". We note that there is the general reference to Section 120 at the top of the page – but perhaps it would be better if there was a specific reference to R120.7 in this section?</p> <p>IRBA</p> <p>While we agree that the extant Code paragraph is covered by the conceptual framework, we would be losing the emphasis of the prohibitions if para 201.4 is left out. We would encourage a repetition of that paragraph.</p>	<p>The Task Force plans to explore whether the content in the revised application material in paragraph 120.8 A2 can be further emphasized with minimal duplication.</p>

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210.5	It is recommended that a professional accountant in public practice periodically review acceptance decisions for recurring client engagements.	320.3 A3 A professional accountant is encouraged to conduct periodic reviews of acceptance decisions for recurring client engagements.	<p>IRBA</p> <p>We note that this is outside the scope of the restructure project, but we recommend that the IESBA considers amending this paragraph to be a requirement.</p>	This has been noted by the Task Force as a matter for board attention as it is outside the project's scope.
210.6	The fundamental principle of professional competence and due care imposes an obligation on a professional accountant in public practice to provide only those services that the professional accountant in public practice is competent to perform. Before accepting a specific client engagement, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.	320.3 A4 A self-interest threat to professional competence and due care is created if the engagement team does not possess, or <u>cannot</u> acquire, the competencies to perform the professional services.	<p>IRBA</p> <p>We believe that the strength of the statement is lost as it has not been classified as a requirement, even though the extant Code makes use of the word "obligation".</p> <p>We have proposed a wording change retaining the extant Code. The proposed wording will remove any ambiguity.</p>	Text modified to add "cannot."
			<p>Assirevi</p> <p>The new paragraph states that a self-interest threat to professional competence and due care is created if an engagement team does not possess the right competencies.</p> <p>We believe this is giving the wrong message. The key ethical obligation is possessing the right competencies, as stated in extant 210.6. The fact that it creates a self-interest threat is quite incidental.</p>	The Task Force does not believe there is a change in meaning - this is explaining how the threat links to the fundamental principles.

<p>Examples of such safeguards include:</p> <ul style="list-style-type: none"> • When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted; • Asking the existing accountant to provide known information on any facts or circumstances that, in the existing accountant's opinion, the proposed accountant needs to be aware of before deciding whether to accept the engagement; or • Obtaining necessary information from other sources. <p>When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in public</p>	<p>320.4 A3</p> <p>Examples of safeguards include:</p> <ul style="list-style-type: none"> • Stating in tenders that, before accepting the engagement, contact with the existing accountant will be requested. This contact gives the proposed professional accountant the opportunity to inquire whether there are any reasons why the appointment should not be accepted. • Asking the existing accountant to provide any known information that, in the existing accountant's opinion, the proposed 	<p>IRBA</p> <p>The requirement in the last paragraph of the extant Code "to decline the engagement" has been lost. We believe it should be retained.</p>	<p>This requirement is addressed in the text of the CF.</p>
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	<p>practice shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.</p>	<p>professional accountant needs to be aware of before deciding whether to accept the engagement.</p> <ul style="list-style-type: none"> • <u>Obtaining information from other sources such as through inquiries of third parties or background investigations of senior management or those charged with governance of the client.</u> 		
210.13	<p>An existing accountant is bound by confidentiality. Whether that professional accountant is permitted or required to discuss the affairs of a client with a proposed accountant will depend on the nature of the engagement and on:</p> <p>(a) Whether the client's permission to do so has been obtained; or</p> <p>(b) The legal or ethical requirements relating to such</p>	<p>320.6 A1 An existing professional accountant is bound by confidentiality. Whether this accountant is permitted or required to discuss the affairs of a client with a proposed accountant will depend on the nature of the engagement and:</p> <p>(a) Whether the accountant has</p>	<p>CAANZ</p> <p>We note that R320.6 (b) introduces a requirement to respond to an ethical letter. This requirement did not exist in the extant Code and we question whether its introduction is intended.</p>	<p>The Task Force does not agree that the ED introduces a requirement to respond to an "ethical letter"</p>

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	<p>communications and disclosure, which may vary by jurisdiction.</p>	<p>permission from the client for the discussion; or</p> <p>(b) The legal and ethical requirements relating to such communications and disclosure, which might vary by jurisdiction.</p>		
	<p>Circumstances where the professional accountant is or may be required to disclose confidential information or where such disclosure may otherwise be appropriate are set out in Section 140 of Part A of this Code.</p>	<p>320.6 A2 Circumstances where a professional accountant might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 114.1 A2 of the Code.</p>		
		<p>R320.5 If unable to communicate with the existing accountant, the proposed professional accountant shall take other reasonable steps to obtain information about any possible threats to compliance with the fundamental principles.</p>	<p>IRBA This is out of the scope of the structure project but the IRBA Code of Professional Conduct for Registered Auditors has a requirement that we have suggested.</p>	<p>This has been noted by the Task Force as a matter for board attention as it is outside the project's scope.</p>

		<p>R320.7</p> <p><u>Where the proposed client refuses to give permission for the proposed auditor to communicate with the existing auditor, or fails to do so, the proposed auditor shall decline the appointment, unless there are exceptional circumstances of which the proposed auditor has full knowledge, and the proposed auditor is satisfied regarding all relevant facts by some other means.</u></p>		
<p>SECTION 220 Conflicts of Interest</p>				
	<p>Such threats may be created when:</p> <ul style="list-style-type: none"> • The professional accountant provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or • The interests of the professional accountant with respect to a particular matter and the interests of the client for whom the professional accountant provides a 	<p>310.3 Such threats might be created when:</p> <ul style="list-style-type: none"> (a) The professional accountant provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or (b) The interests of the accountant with respect to a particular matter and the interests of the client for whom the accountant provides a 	<p>APESB</p> <p>APESB notes that drafting guideline no.19¹ provides guidance on when 'may' or 'might' is used (i.e. 'might' is used when there is a possibility that something may or may not occur, whereas 'may' is used for when a matter is permitted). However, we have identified several instances where the use of the term 'might' is inappropriate in a practical sense.</p> <p>For instance the use of 'might' has inadvertently weakened the original provisions of paragraphs 310.3 and 310.4 of the proposed Code where</p>	<p>The Task Force prefers to use might to avoid suggesting permission.</p>

¹ Structure of the Code Phase 2 – Revised Drafting Guidelines presented at the IESBA Meeting (March 2016)

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<p>professional service related to that matter are in conflict.</p>	<p>professional service related to that matter are in conflict.</p>	<p>examples provided are indicative of there invariably being a conflict, such as:</p> <ul style="list-style-type: none"> • providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions. • providing services to a seller and buyer in relation to the same transaction. • representing two clients in the same matter who are in a legal dispute with each other. 	
<p>A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.</p>	<p>R310.6 A professional accountant shall apply the conceptual framework set out in Section 120 and shall not allow a conflict of interest to compromise professional or business judgment.</p>	<p>IRBA Why was there a need to reference the conceptual framework? Should this not be a clear prohibition as it is in the extant code?</p>	<p>The requirement to apply the conceptual framework has been deleted here as part of the Task Force recommendation to use an introductory reminder in certain sections.</p>
<p>When the professional service is an assurance service, compliance with the fundamental principle of objectivity also requires being independent of assurance clients in accordance with Sections 290 or 291 as appropriate.</p>	<p>310.5 When a professional accountant provides an audit, review or other assurance service, compliance with the fundamental principle of objectivity also requires independence in accordance</p>		

		with C1 and C2, as appropriate.		
220.7	For the purpose of identifying interests and relationships that might create a conflict of interest, having an effective conflict identification process assists a professional accountant in public practice to identify actual or potential conflicts of interest prior to determining whether to accept an engagement and throughout an engagement. This includes matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the professional accountant being able to apply safeguards, when necessary, to eliminate the threat to objectivity and any threat to compliance with other fundamental principles or reduce it to an acceptable level.	310.7 A1 Professional accountants are assisted by having an effective conflict identification process in place. Such a process includes addressing matters identified by external parties, for example clients or potential clients. A conflict identification process assists an accountant to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the accountant being able to apply	ISCA We propose to add the phrase “or reduce it to an acceptable level” at the end of the first paragraph after “..... to apply safeguards to eliminate the threat”. Safeguards could either eliminate a threat or reduce it to an acceptable level. This will allow the restructured paragraph to be consistent in meaning with that in the extant Code. DTTL The last sentence of the first paragraph does not include the phrase “or reduce it to an acceptance level” which is an important concept. Otherwise, the paragraph infers that all threats must be completely eliminated.	The Safeguards Task Force plans to consider this feedback as part of developing conforming amendments.

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		safeguards to eliminate the threat.		
	<p>The process to identify actual or potential conflicts of interest will depend on such factors as:</p> <ul style="list-style-type: none"> • The nature of the professional services provided. • The size of the firm. • The size and nature of the client base. <p>The structure of the firm, for example, the number and geographic location of offices.</p>	<p>The process to identify actual or potential conflicts of interest will depend on such factors as:</p> <ul style="list-style-type: none"> • The nature of the professional services provided. • The size of the firm. • The size and nature of the client base. • The structure of the firm, for example, the number and geographic location of offices. 		
220.8	<p>If the firm is a member of a network, conflict identification shall include any conflicts of interest that the professional accountant in public practice has reason to believe may exist or might arise due to interests and relationships of a network firm.</p>	<p>R310.9</p> <p>If the firm is a member of a network, the professional accountant shall consider conflicts of interest that the accountant has reason to believe might exist or arise due to interests and relationships of a network firm.</p>	<p>DTTL</p> <p>The “shall” requirement in extant paragraph 220.8 is about the scope of the identification process, however 310.9 has changed the requirement into being about the consideration of conflicts.</p> <p>IRBA</p> <p>310.9</p>	<p>The term “shall consider” conveys the need for a degree of judgment.</p>

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	<p>Reasonable steps to identify such interests and relationships involving a network firm will depend on factors such as the nature of the professional services provided, the clients served by the network and the geographic locations of all relevant parties.</p>	<p>310.9 A1 Reasonable steps to identify interests and relationships involving a network firm will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature of the professional services provided. • The clients served by the network. • The geographic locations of all relevant parties. 	<p>It is unclear what the requirement is asking the professional accountant to do.</p> <p>“Shall consider” does not read as a strong requirement.</p>	
220.9	<p>If a conflict of interest is identified, the professional accountant in public practice shall evaluate:</p> <ul style="list-style-type: none"> • The significance of relevant interests or relationships; and • The significance of the threats created by performing the professional service or services. 	<p>310.10 A1 In applying the conceptual framework when evaluating a threat created by a conflict of interest, factors to consider include the significance of:</p> <ul style="list-style-type: none"> • The interests or relationships; and • The threats created by performing the professional 	<p>IRBA</p> <p>We question why a “shall” in the extant code has been reclassified as an application matter.</p>	<p>If a “shall” were adopted here it would represent a repetition of a requirement to apply one part of CF whereas what is required in this paragraph is application material.</p>

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		services.		
	In general, the more direct the connection between the professional service and the matter on which the parties' interests are in conflict, the more significant the threat to objectivity and compliance with the other fundamental principles will be.	310.10 A2 In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more significant the threat to objectivity and compliance with the other fundamental principles will be.		
220.11	In addition, it is generally necessary to disclose the nature of the conflict of interest and the related safeguards, if any, to clients affected by the conflict and, when safeguards are required to reduce the threat to an acceptable level, to obtain their consent to the professional accountant in public practice performing the professional services.	310.11 A2 It is generally necessary: (a) To disclose the nature of the conflict of interest and any related safeguards to clients affected by the conflict; and (b) When safeguards are required to reduce the threat to an acceptable level, to obtain the consent of the affected clients to perform the	IRBA We question why a "shall" in the extant code has been reclassified as an application matter. IOSCO Use of "it is generally necessary" Some provisions of the proposed Code preface actions by the accountant with the words "it is generally necessary". These provisions would provide too much subjectivity, lack clarity and would be difficult to enforce. An example is paragraph 310.11 A2. We suggest making such provisions requirements.	The Task Force has noted this as a matter for board attention.

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		professional services.			
220.13	When disclosure is verbal, or consent is verbal or implied, the professional accountant in public practice is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to reduce the threats to an acceptable level and the consent obtained.	310.11 A4	<p>If disclosure or consent is not in writing, the professional accountant is encouraged to document:</p> <ul style="list-style-type: none"> (a) The nature of the circumstances giving rise to the conflict of interest; (b) The safeguards applied to reduce the threats to an acceptable level; and (c) The consent obtained. 	<p>IRBA</p> <p>We question why this has not been written as a requirement or, as a minimum, reference the conceptual framework. This would constitute very important evidence.</p>	The intention of the extant Code is not to create a requirement and to convert it to a requirement would be outside the project scope.
220.14	<p>In certain circumstances, making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality. Examples of such circumstances may include:</p> <ul style="list-style-type: none"> • Performing a transaction-related service for a client in connection with a hostile takeover of another client of the firm. 	310.14 A1	<p>For example, a breach of confidentiality might arise when seeking consent to perform:</p> <ul style="list-style-type: none"> • A transaction-related service for a client in a hostile takeover of another client of the firm. 	<p>IRBA</p> <p>We note that the phrase “making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality” has been omitted. This provides context and should be reinstated please.</p>	The text of the ED conveys the meaning of the extant Code but does so more succinctly.

	<ul style="list-style-type: none"> Performing a forensic investigation for a client in connection with a suspected fraudulent act where the firm has confidential information obtained through having performed a professional service for another client who might be involved in the fraud. 	<ul style="list-style-type: none"> A forensic investigation for a client regarding a suspected fraud, where the firm has confidential information from its work for another client who might be involved in the fraud. 		
SECTION 230 Second Opinions				
230.3	<p>If the company or entity seeking the opinion will not permit communication with the existing accountant, a professional accountant in public practice shall determine whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.</p>	<p>R321.5 If an entity seeking a second opinion from a professional accountant will not permit the accountant to communicate with the existing accountant, the accountant shall determine whether the accountant may provide the second opinion sought.</p>	<p>Assirevi The reworded and reorganised paragraphs in this Section, in this Association's view, are not as clear as the present Section 230. The succession of paragraphs in Section 230 handles the issue of Second Opinions more logically. Specifically, paragraph 230.2 envisages that contacting the existing accountant is a safeguard against the risk of not being aware of all the facts and circumstances at the basis of the request for a second opinion. The following paragraph, 230.3, then deals with a case in which the auditor must determine whether the second opinion can be provided or not,</p>	<p>The task force is considering the phrasing used in this paragraph.</p>

			<p>if the client does not consent that he contacts the existing accountant.</p> <p>The Section 321 that is proposed, on the other hand, states a requirement similar to that laid down in paragraph 230.3 but does not mention the need for, or the advisability of, contacting the existing accountant</p>	
SECTION 240 Fees and Other Types of Remuneration				
240.1	<p>When entering into negotiations regarding professional services, a professional accountant in public practice may quote whatever fee is deemed appropriate. The fact that one professional accountant in public practice may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.</p>	<p>330.3 A1 The level of fees quoted might impact a professional accountant's ability to perform professional services in accordance with professional standards.</p> <p>330.3 A2 A professional accountant may quote whatever fee is considered appropriate. Quoting a fee lower than another accountant is not in itself unethical. However, fee quotations create a threat to professional competence and due care if the fee quoted is</p>	<p>ISCA</p> <p>We propose to amend the phrase “.....However, fee quotations create a threat to professional competence.....” to “.....However, the level of fees quoted create a threat to professional competence.....” The term “fee quotations” is more general as it could also relate to the manner in which the fee quotation is given. In this instance, as the concern is with excessively low fees quoted, it may be more appropriate to use “the level of fees quoted”, which specifically addresses the quantum of the professional fees in relation to the relevant engagement.</p>	<p>Text modified to reflect the suggested language.</p>

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			so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.		
Footnote to 240.3	Contingent fees for non-assurance services provided to audit clients and other assurance clients are discussed in Sections 290 and 29 of this Code.	330.3 A6	Contingent fees for services provided to audit clients and other assurance clients are set out in C1 and C2 of the Code.	<p>IRBA</p> <p>We note that this may be out of the scope of the IESBA project, but in the IRBA Code of Professional conduct certain contingent fees are prohibited and we have provided suggested wording for its inclusion.</p> <p>Proposed wording: 240.4A</p> <p><u>Notwithstanding the paragraphs above, a professional accountant shall not charge contingent fees for assurance services provided to clients, or for the preparation of an original or amended tax return, as these services are regarded as creating a self-interest threat to objectivity for which appropriate safeguards cannot be applied to eliminate the threats or reduce them to an acceptable level.</u></p>	This has been noted by the Task Force as a matter for board attention as it is outside the project's scope.
SECTION 250 Marketing Professional Services					
250.2	A professional accountant in public practice shall not bring the	R115.2	When marketing or promoting themselves	IRBA	The requirement has been written as part

	<p>profession into disrepute when marketing professional services. The professional accountant in public practice shall be honest and truthful, and not:</p> <p>(a) Make exaggerated claims for services offered, qualifications possessed, or experience gained; or</p> <p>(b) Make disparaging references or unsubstantiated comparisons to the work of another.</p> <p>If the professional accountant in public practice is in doubt about whether a proposed form of advertising or marketing is appropriate, the professional accountant in public practice <u>shall consider consulting</u> with the relevant professional body.</p>	<p>and their work, professional accountants shall not bring the profession into disrepute. Professional accountants shall be honest and truthful and shall not make:</p> <p>(a) Exaggerated claims for the services they are able to offer, their qualifications, or their experience; or</p> <p>(b) Disparaging references or unsubstantiated comparisons to the work of others</p>	<p>We question why this paragraph has not been written as a requirement</p>	<p>R115.2 which is a requirement.</p>
		<p>115.2 A1 If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body.</p>		
<p>SECTION 260 Gifts and Hospitality</p>				

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260.1	A professional accountant in public practice, or an immediate or close family member, may be offered gifts and hospitality from a client. Such an offer may create threats to compliance with the fundamental principles. For example, a self-interest or familiarity threat to objectivity may be created if a gift from a client is accepted; an intimidation threat to objectivity may result from the possibility of such offers being made public.	340.2 An offer of gifts or hospitality from a client to a professional accountant, or an immediate or close family member of an accountant, might create a self-interest or familiarity threat to objectivity if the offer is accepted, or an intimidation threat to objectivity if the acceptance of the offer might be made public.	<p>DTTL</p> <p>340.2 Based on the way this is written, it appears the examples are the only instances that would be the cause of a threat to complying with the fundamental principles. The following changes are suggested to clarify: “An offer of gifts or hospitality from a client to a professional accountant, or an immediate or close family member of an accountant, might create a threat to compliance with the fundamental principles. For example, there may be a self-interest or familiarity threat to objectivity if the offer is...”</p>	Text modified to accept this suggestion.
260.2	The existence and significance of any threat will depend on the nature, value, and intent of the offer. Where gifts or hospitality are offered that a reasonable and informed third party, weighing all the specific facts and circumstances, would consider trivial and inconsequential, a professional accountant in public practice may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the professional accountant	340.3 A1 The existence and significance of a threat created by an offer of a gift or hospitality from a client will depend on the nature, value and intent of the offer. In some circumstances, a reasonable and informed third party would consider some gifts or hospitality to be trivial and inconsequential. In such circumstances, the professional	<p>IRBA</p> <p>The introduction of the phrase “in some circumstances” does not improve upon or set the proper level of rigor with necessary flexibility to exercise judgement.</p>	<p>The Structure Task Force has modified the language to clarify the circumstances that apply.</p> <p>This paragraph is subject to conforming changes as a result of the Safeguards project because it contain the words “the existence and significance of threats” are subject to conforming amendments Accordingly, this</p>

	in public practice may generally conclude that any threat to compliance with the fundamental principles is at an acceptable level.	accountant may conclude that the offer is made in the normal course of business without intent to influence decision making or to obtain information, and conclude that any threat to compliance with the fundamental principles is at an acceptable level.		comment will be explored by the Safeguards Task Force as part of its work on developing conforming amendments.
SECTION 270 Custody of Client Assets				
270.1	A professional accountant in public practice shall not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a professional accountant in public practice holding such assets.	R350.4 A professional accountant shall not assume custody of client money or other assets unless permitted to do so by law.		
		350.3 A1 A professional accountant might also be bound by law that establishes who may take custody of client money or other assets and under what conditions such custody may be taken.	DTTL Complying with law is a requirement in the extant Code, but is only guidance in the ED. This should be a requirement. Consider combining this with R350.4.	This section has been redrafted to address duplication consistent with the comment.
280 Objectivity—All Services				

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280.2	A professional accountant in public practice who provides an assurance service shall be independent of the assurance client. Independence of mind and in appearance is necessary to enable the professional accountant in public practice to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest, or undue influence of others. Sections 290 and 291 provide specific guidance on independence requirements for professional accountants in public practice when performing assurance engagements.	R400.9	A firm performing an audit engagement shall be independent of the audit client and shall apply the conceptual framework set out in Section 120 when identifying, evaluating and addressing threats to independence in relation to an audit engagement.	DTTL The ED does not include the statement “A professional accountant in public practice who provides an assurance service shall be independent of the assurance client.” which is currently contained in extant paragraph 280.2. This is an important concept that should not be deleted from this sub-section	This concept is covered by R400.9 in ED 1.
		112.3 A1	Independence is a measure of objectivity both in mind and appearance which is applied in relation to audit, review and other assurance engagements. It enables the professional accountant in public practice to express, and be seen to express, an objective conclusion when performing such engagements.	FEE For the sake of consistency, we think that the proposed 112.3.A1 and 112.3.A2 should not be mentioned under “objectivity” as independence only relates to audit, review, and other assurance engagements carried out by professional accountants in public practice.	These paragraphs have now been deleted.

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		<p>112.3 A2 C1 and C2 set out independence requirements and application material for professional accountants in public practice.</p>	<p>IFAC SMPC In paragraph 112.3 A2 it is indicated that C1 and C2 set out independence requirements and application material for professional accountants in practice, but it is now not clear the content only relates to audit, review and other assurance</p>	<p>Text has been deleted.</p>
<p>280.4</p>	<p>A professional accountant in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Withdrawing from the engagement team; • Supervisory procedures; • Terminating the financial or business relationship giving rise to the threat; • Discussing the issue with higher levels of management within the firm; or • Discussing the issue with those charged with governance of the client. <p><u>If safeguards cannot eliminate or reduce the threat to an acceptable level, the professional accountant</u></p>	<p>112.2.A2 Examples of safeguards include:</p> <ul style="list-style-type: none"> • Supervisory procedures. • Discussing the issue: <ul style="list-style-type: none"> ○ With higher levels of management within the firm; or ○ With those charged with governance of the client; • Withdrawing from the engagement team. • Ending the financial or 	<p>IRBA The IESBA may want to include termination as a possible safeguard in the list provided.</p>	<p>Referred to the Safeguards Task Force.</p>

	<u>shall decline or terminate the relevant engagement.</u>	business relationship causing the threat.		
SECTION 290 INDEPENDENCE—AUDIT AND REVIEW ENGAGEMENTS				
290.1	This section addresses the independence requirements for audit engagements and review engagements, which are assurance engagements in which a professional accountant in public practice expresses a conclusion on financial statements. Such engagements comprise audit and review engagements to report on a complete set of financial statements and a single financial statement.	400.1 Independence is a measure of objectivity, both in mind and appearance, which is applied to audit engagements. It enables a firm to express, and be seen to express, an objective conclusion when performing such engagements. <u>It is in the public interest and required by the Code that members of audit teams, firms and network firms be independent of audit clients.</u> C1 sets out requirements and application material on maintaining independence when performing audit engagements. (See also paragraph 400.7 regarding references to “firm.”)	IRBA We note that in the definition of “Independence of mind” and “Independence of appearance” reference is made to integrity, objectivity and professional scepticism. Thus, there seems to be two different approaches when linking Independence and the fundamental principles.	This material is currently under review and part of the review of ED comments. Some changes have been proposed by the Task Force.
	Independence requirements for assurance engagements that are not audit or review engagements are addressed in Section 291.	400.5 Independence requirements for assurance engagements that are not audit or review		

		engagements are set out in C2.		
290.10	In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the audit team, a firm shall identify and evaluate threats to independence. If the threats are not at an acceptable level, and the decision is whether to accept an engagement or include a particular individual on the audit team, the firm shall determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level. If the decision is whether to continue an engagement, the firm shall determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat to independence comes to the attention of the firm during the engagement, the firm shall	<p>R400.10 In applying the conceptual framework, a firm shall:</p> <p>(a) When evaluating the significance of threats to independence, take qualitative as well as quantitative factors into account;</p> <p>(b) If a determination has been made that the threats are not at an acceptable level, and the decision to be made is whether to accept an engagement or include a particular individual on the audit team, determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level;</p> <p>(c) If the decision is whether to continue an audit engagement, determine whether:</p> <p>(i) Any existing safeguards will continue to be effective to eliminate the</p>	<p>IRBA</p> <p>In line with the Safeguards Project, we note that this list is helpful and should not be understated. The IESBA may want to consider repeating it upfront under Section 120, The Conceptual Framework.</p>	Section 120 now includes a section that explains the application of the conceptual framework for independence. See Agenda Item 2-B.

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	evaluate the significance of the threat in accordance with the conceptual framework approach.	<p>threats or reduce them to an acceptable level;</p> <p>(ii) Other safeguards will need to be applied; or</p> <p>(iii) The engagement needs to be ended; and</p> <p>(d) Whenever new information about a threat to independence comes to the attention of the firm during an audit engagement, evaluate the significance of that threat in accordance with the conceptual framework.</p>		
290.13	If a firm is deemed to be a network firm, the firm shall be independent of the audit clients of the other firms within the network (unless otherwise stated in this Code).	R401.2 A network firm shall be independent of the audit clients of the other firms within the network where C1 specifically requires such independence.	DTTL The extant Code requires network firms to be independent of the audit clients of other firms. This has now been qualified.	This text has been modified to clarify that independence is achieved by complying with the independence standards as established by the Code.
	The independence requirements in this section that apply to a network firm apply to any entity, such as a consulting practice or professional law practice, that meets the definition of a network firm irrespective of whether the entity itself meets the definition of a firm.	401.3 A1 The independence requirements in C1 that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For	DTTL 401.3 A1 through 401.3A6 These would appear to be requirements that would apply under R401.3.	These paragraphs are guidance on how to interpret and apply the requirements, but are not requirements themselves because they are not “shall” statements in the extant Code.

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		example, a consulting practice or professional law practice might be a network firm but not a firm.		
290.16	Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network. However, the sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network.	401.3 A2 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is a network. However, the sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does	DTTL 401.3 A1 through 401.3A6 These would appear to be requirements that would apply under R401.3.	These paragraphs are guidance on how to interpret and apply the requirements, but are not requirements themselves because they are not "shall" statements in the extant Code.

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			not in itself create a network.		
290.17	Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a network. This could be achieved by contract or other means.	401.3 A3	Where the larger structure is aimed at co-operation and the entities within the structure share common ownership, control or management, it is a network. This could be achieved by contract or other means.	DTTL 401.3 A1 through 401.3A6 These would appear to be requirements that would apply under R401.3.	These paragraphs are guidance on how to interpret and apply the requirements, but are not requirements themselves because they are not “shall” statements in the extant Code.
290.18	Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is deemed to be a network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.	401.3 A4	Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is a network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.	DTTL 401.3 A1 through 401.3A6 These would appear to be requirements that would apply under R401.3.	These paragraphs are guidance on how to interpret and apply the requirements, but are not requirements themselves because they are not “shall” statements in the extant Code.
290.19	Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is	401.3 A5	Where the larger structure is aimed at co-operation and the entities within the	DTTL 401.3 A1 through 401.3A6	These paragraphs are guidance on how to interpret and apply the requirements, but are

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	<p>deemed to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service.</p>	<p>structure share a common business strategy, it is a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service.</p>	<p>These would appear to be requirements that would apply under R401.3.</p>	<p>not requirements themselves because they are not “shall” statements in the extant Code.</p>
290.20	<p>Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is deemed to be a network. A common brand name includes common initials or a common name. A firm is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an audit report.</p>	<p>401.3 A6 Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is a network. A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or</p>	<p>DTTL 401.3 A1 through 401.3A6 These would appear to be requirements that would apply under R401.3.</p>	<p>These paragraphs are guidance on how to interpret and apply the requirements, but are not requirements themselves because they are not “shall” statements in the extant Code.</p>

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		along with, its firm name when a partner of the firm signs an audit report.		
290.24	The determination of whether the professional resources shared are significant, and therefore the firms are network firms, shall be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.	401.3 A9 Whether the shared professional resources are significant depends on the circumstances. For example: <ul style="list-style-type: none"> • Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor. • Where the shared resources involve the exchange of personnel or information, such 	IRBA We question why this paragraph has not been written as a requirement.	The Task Force believes that the necessary action is clear without the use of “shall.”

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			<p>as where personnel are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.</p>		
290.25	<p>Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities are:</p> <p>(a) All listed entities; and</p> <p>(b) Any entity:</p>	400.6	<p>C1 sets out requirements and application material that reflect the extent of public interest in certain entities which are defined to be public interest entities. ...</p>	<p>SAICA</p> <p>Regarding section 400.6 of the restructured code (290.25 of extant code), we would like to suggest that it is incumbent on any Firm or member body to determine whether to treat additional entities, or certain categories of entities as PIES, yet the term “are encouraged” inherited from the extant Code, implies</p>	<p>The restatement of this text as a requirement has been noted by the Task Force as a matter for board attention.</p>

	<p>(i) Defined by regulation or legislation as a public interest entity; or</p> <p>(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.</p>		<p>choice in carrying out this determination – we suggest this be made a requirement, as we believe this clarifies that a duty to carry out an assessment is required.</p>	
290.27	<p>In the case of an audit client that is a listed entity, references to an audit client in this section include related entities of the client (unless otherwise stated). For all other audit clients, references to an audit client in this section include related entities over which the client has direct or indirect control. When the audit team knows or has reason to believe that a relationship or circumstance involving another related entity of the client is relevant to the evaluation of the</p>	<p>R400.11 As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in C1 include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or</p>	<p>IRBA R400.11 As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in C1 include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's (network firm's) independence from the client, the audit team shall include that related entity when identifying and</p>	<p>A network reference is not needed here because the network firm relationships, activities and interests are matters that the firm must consider in evaluating its own independence.</p>

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	<p>firm's independence from the client, the audit team shall include that related entity when identifying and evaluating threats to independence and applying appropriate safeguards.</p>	<p>circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying and evaluating threats to independence and applying appropriate safeguards.</p>	<p>evaluating threats to independence and applying appropriate safeguards;</p>	
290.28	<p>Even when not required by the Code, applicable auditing standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the audit client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:</p> <ul style="list-style-type: none"> (a) Consider the firm's judgments in identifying and evaluating threats to independence; (b) Consider the appropriateness of 	<p>400.15 A1 Even when not required by the Code, applicable professional standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:</p>	<p>IRBA This revised paragraph that refers to another paragraph is not particularly helpful to the reader of the Code especially since the referenced paragraph (R300.3) does not immediately precede the requirement (R400.15).</p>	<p>References are used deliberately here and in many other places to avoid repetition as requested by stakeholders.</p>

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	<p>safeguards applied to eliminate them or reduce them to an acceptable level; and</p> <p>(c) Take appropriate action.</p> <p>Such an approach can be particularly helpful with respect to intimidation and familiarity threats.</p>	<p>(a) Consider the firm's judgments in identifying and evaluating threats to the fundamental principles;</p> <p>(b) Consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level; and</p> <p>(c) Take appropriate action.</p> <p>Such an approach can be particularly helpful with respect to intimidation and familiarity threats.</p>		
290.30	<p>Independence from the audit client is required both during the engagement period and the period covered by the financial statements. The engagement period starts when the audit team begins to perform audit services. <u>The engagement period ends when the audit report is issued. When the</u></p>	<p>R400.12 Independence as required by C1 shall be maintained during both:</p> <p>(a) The engagement period; and</p> <p>(b) The period covered by the</p>	<p>IRBA</p> <p>Though the engagement period has been covered in the Definitions section of the Glossary, we believe that repeating the definition in the body of the Code would be helpful as engagement period is a term that is generally understood and a</p>	<p>The text has been modified to reflect the suggestion in view of the importance of the definition.</p>

	<p><u>engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has terminated or the issuance of the final audit report.</u></p>	<p>financial statements.</p>	<p>reader will not frequently refer to the glossary.</p> <p>ICAS</p> <p>This does not provide any detail in relation to the engagement period in contrast to the current paragraph 290.30.</p>		
290.33	<p>When, as a result of a merger or acquisition, an entity becomes a related entity of an audit client, the firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account available safeguards, could affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition.</p>	403.1	<p>An entity might become a related entity of an audit client because of a merger or acquisition. A threat to independence, and therefore, the ability of a firm to continue an audit engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.</p>	<p>BDO</p> <p>Mergers and acquisitions section, 290.33, in the extant Code, refers to a merger by an audit client and the impact on the firm. There is no reference to network firm. Based on the definition of audit and related entities, the related entity may or may not be considered part of the audit. Network firms would only be applicable if they were performing services for a related entity that was considered to be part of the audit.</p> <p>Subsection 403 – Mergers and Acquisitions, 403.1, in the restructured Code, refers to a threat that may be created by previous or current interests or relationships between a firm or network firm and such a related entity. The reference to network firm could be confusing as it is no longer clear if (1) network firms are always to be considered or (2) only when the related</p>	<p>The intention of the extant Code is that a network firm should always be considered so that possible threats are identified. However, the evaluation could result in a determination by the firm that any threat does not need to be addressed.</p>

			<p>party was considered to be part of the audit.</p> <ul style="list-style-type: none"> • If the intent is that network firms should always be considered, we believe this is a change in the meaning of the Code. • If the intent was to highlight that sometimes network firms need to be considered, we believe that additional wording as to when a network firm should be considered should be included. 	
			<p>EYG</p> <p>The extant Code establishes a general rule for the meaning of “firm” where used in extant Section 290 as follows: “firm includes network firm, except where otherwise stated.” The proposed restructured Code distinguishes network firms from firms and corresponding responsibilities. Conceptually, we are not opposed to this change. However, we believe the language in the extant Code is clear that a firm within a network must be independent of the audit clients of other firms in that network and this message is no longer as clear as a result of the proposed changes. We have also noted at least a few sections where the revised usage resulted in a different meaning than in the extant</p>	<p>This section has been revisited and “network firm” has been added as appropriate. If the word “firm” is used other than in the context of “the financial statements on which the firm will express an opinion a reference has been made to a network firm.</p>

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			<p>Code. We have particular concerns on unintended changes in meaning and lack of clarity with respect to network firms in the following sections:</p> <ul style="list-style-type: none"> • Section 403 Mergers and Acquisitions; • Section 404 Breach of an Independence provision; • Section 521 Family and Personal Relationships; and • Section 524 Employment with an Audit Client. <p>For example, section 524 refers to former professionals of the “firm” joining an audit client and threats to independence caused by such a situation. With the new wording such situations do not appear to apply to professionals joining the audit client from a network firm. Instead, in the current Code it is clear that such situations do apply to professionals coming from a network firm.</p>	
290.34	<p>290.34 The firm shall take steps necessary to terminate, by the effective date of the merger or acquisition, any current interests or relationships that are not permitted under this Code.</p> <p>However, if such a current interest or relationship cannot reasonably</p>	<p>R403.3(a) In the circumstances set out in paragraph 403.1, the firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account</p>		

<p>be terminated by the effective date of the merger or acquisition, for example, because the related entity is unable by the effective date to effect an orderly transition to another service provider of a non-assurance service provided by the firm, the firm shall evaluate the threat that is created by such interest or relationship.</p> <p>The more significant the threat, the more likely the firm's objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat will depend upon factors such as:</p> <ul style="list-style-type: none"> • The nature and significance of the interest or relationship; • The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent); and • The length of time until the interest or relationship can reasonably be terminated. <p>The firm shall discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be</p>	<p>available safeguards, could affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition.</p>		
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	<p>terminated by the effective date of the merger or acquisition and the evaluation of the significance of the threat.</p>			
		<p>403.2 It might not be reasonable to end an interest or relationship by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.</p>	<p>IRBA It might not be reasonable to end an interest or relationship by the effective date of the merger or acquisition. This might be because the firm (network firm) provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.</p>	<p>The Task Force notes that this is an example of such a circumstance which and therefore specific reference to a network firm is not necessary.</p>
		<p>R403.3(c) As an exception to R403.3(b), if the interest or relationship cannot reasonably be ended by the effective date, the firm shall:</p> <ul style="list-style-type: none"> (i) Evaluate the threat that is created by the interest or relationship; and... 	<p>IRBA Was there a need for an exception to be brought in? Is this within the scope of the Restructure Code, as it appears to introduce new material? We thus do not at face value agree with the introduction of R403.3(c) and suggest that it should be deleted.</p>	<p>The exception existed in the extant Code. “290.34 Para 2 However, if such a current interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition, for example, because the related entity is unable by the effective</p>

				<p>date to effect an orderly transition to another service provider of a non-assurance service provided by the firm, the firm shall evaluate the threat that is created by such interest or relationship.”</p>
<p>290.38</p>	<p>The professional accountant shall document any interests or relationships covered by paragraphs 290.34 and 36 that will not be terminated by the effective date of the merger or acquisition and the reasons why they will not be terminated, the transitional measures applied, the results of the discussion with those charged with governance, and the rationale as to why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.</p>	<p>R403.7 The firm shall document:</p> <ul style="list-style-type: none"> (a) Any interests or relationships set out in paragraph 403.1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended; (b) The transitional measures applied; (c) The results of the discussion with those charged with governance; and 	<p>IRBA We question whether the change from professional accountant to firm is deliberate. It would seem appropriate for the firm and the professional accountant to document, depending on the circumstances.</p>	<p>It is a professional accountant who documents, but “firm” is appropriate because the term also captures professional accountants. The use of the word “firm” and its relationship to “professional accountants” in the independence sections is also explained in Section 400.</p>

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		<p>(d) The reasons why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.</p>		
290.11	<p>Despite paragraphs 290.108 and 290.110, the holding of a financial interest in an audit client by an immediate family member of:</p> <p>(a) A partner located in the office in which the engagement partner practices in connection with the audit engagement; or</p> <p>(b) A partner or managerial employee who provides non-audit services to the audit client is deemed not to compromise independence if the financial interest is received as a result of the immediate family member's employment rights (for example, through pension or share option plans) and, when necessary, safeguards are applied to eliminate any threat to independence or reduce it to an acceptable level.</p>	<p>R510.6</p> <p>As an exception to paragraph R510.5, an immediate family member identified in subparagraphs 510.5(c) or (d) may hold a direct or material indirect financial interest in an audit client, provided that:</p> <p>(a) The family member received the financial interest because of employment rights (for example, through pension or share option plans);</p> <p>(b) The family member disposes</p>	<p>DTTL</p> <p>It does not make sense to say that a financial interest may be held provided that the family member disposes of the financial interest. The extant Code provides the financial interest may be held subject to (a) and (c), however the family member must sell the interest as soon as they are able to.</p>	<p>The text conveys the meaning of the extant Code although the language is different. The text is in the correct order bearing in mind the revisions to the text.</p>

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	<p>However, when the immediate family member has or obtains the right to dispose of the financial interest or, in the case of a stock option, the right to exercise the option, the financial interest shall be disposed of or forfeited as soon as practicable.</p>	<p>of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option; and</p> <p>(c) When necessary, the firm applies safeguards to eliminate any threat to independence or reduce it to an acceptable level.</p>		
290.112	<p>A self-interest threat may be created if the firm or a member of the audit team, or a member of that individual's immediate family, has a financial interest in an entity and an audit client also has a financial interest in that entity. However, independence is deemed not to be compromised if these interests are</p>	<p>R510.9 (a) A firm, or a network firm, or an audit team member, or that individual's immediate family member shall not hold a financial interest in an</p>	<p>ICAS We are not convinced that sections 510.9 (a) and (b) have the same meaning as the content of current paragraph 290.112. Current paragraph 290.112 states; "independence is deemed not to be compromised if these interests are immaterial AND the audit client cannot exercise significant</p>	<p>The Task Force believes that the meaning of the Code is unchanged.</p>

	<p>immaterial and the audit client cannot exercise significant influence over the entity. If such interest is material to any party, and the audit client can exercise significant influence over the other entity, no safeguards could reduce the threat to an acceptable level. Accordingly, the firm shall not have such an interest and any individual with such an interest shall, before becoming a member of the audit team, either:</p> <p>(a) Dispose of the interest; or</p> <p>(b) Dispose of a sufficient amount of the interest so that the remaining interest is no longer material.</p>	<p>entity when an audit client also has a financial interest in that entity, unless:</p> <p>(i) The financial interests are immaterial to the firm, the network firm, the audit team member, that individual's immediate family member and the audit client, as the case may be; or</p> <p>(ii) The audit client cannot exercise significant influence</p>	<p>influence over the entity". Proposed section 510.9 (a) states: "The financial interests are immaterial, OR, the audit client cannot exercise significant influence." We are also not convinced that the content of paragraph 510 9 (b) reflects that of the existing section either.</p> <p>EYG</p> <p>It appears that and should appear between (i) and (ii) of Section 510.9 instead of or. We suggest this section be reviewed for consistency with extant Section 290.112.</p>	
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		<p style="text-align: center;">over the entity.</p> <p>(b) Before an individual can become an audit team member, the individual or that individual's immediate family member shall either:</p> <p>(i) Dispose of the interest; or</p> <p>(ii) Dispose of enough of the interest so that the remaining interest is no longer material.</p>		
290. 116	If a firm or a partner or employee of the firm, or a member of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an audit client, for example, by way of an inheritance, gift or as a result of a merger and such interest would not be	R510.10 If a firm, a network firm or a partner or employee of the firm or a network firm, or that individual's immediate family member, receives a direct financial interest or a material indirect	ISCA We propose to remove the word "otherwise" from the sentence "If a firm..... and the interest would not otherwise be permitted to be held under this section....." such that it reads "If a firm..... and the interest would not be permitted to be held under this section.....". The term "would not	The Task Force notes that this is an example of such a circumstance which and therefore specific reference to a network firm is not necessary.

	<p>permitted to be held under this section, then:</p> <p>(a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material;</p> <p>(b) If the interest is received by a member of the audit team, or a member of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material; or</p> <p>(c) If the interest is received by an individual who is not a member of the audit team, or by an immediate family member of the individual, the financial interest shall be disposed of as soon as possible, or a sufficient amount of an indirect</p>	<p>financial interest in an audit client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section then:</p> <p>(a) If the interest is received by the firm or a network firm, or an audit team member or by that individual's immediate family member, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or</p> <p>(i) If the interest is received by</p>	<p>otherwise be permitted” suggests that there will be some circumstances under which the interests are permissible. On the other hand, “would not be permitted” as used in the Extant Code does not give such leeway.</p>	
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	<p>financial interest shall be disposed of so that the remaining interest is no longer material. Pending the disposal of the financial interest, a determination shall be made as to whether any safeguards are necessary.</p>	<p>an individual who is not an audit team member, or by an immediate family member of that individual, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and</p>		
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		<p>(ii) Pending the disposal of the financial interest, the firm shall determine whether safeguards are necessary.</p>		
<p>290.122</p>	<p>If a firm or a member of the audit team, or a member of that individual's immediate family, has deposits or a brokerage account with an audit client that is a bank, broker or similar institution, a threat to independence is not created if the deposit or account is held under normal commercial terms.</p>	<p>R511.7 A firm, a network firm, an audit team member, or that individual's immediate family member shall not have deposits or a brokerage account with an audit client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.</p>	<p>BDO</p> <p>Loans and Guarantees 290.122 in the extant Code states, 'If a firm or a member of the audit team, or a member of that individual's immediate family, has deposits or a brokerage account with an audit client that is a bank, broker or similar institution, a threat to independence is not created if the deposit or account is held under normal commercial terms.'</p> <p>The wording in the restructured Code is, R511.7, 'A firm, a network firm, an audit team member, or that individual's immediate family members shall not have deposits or a brokerage account with an audit client that is a bank, broker or similar institution, unless the deposit or</p>	<p>Network firm explicitly stated for clarity.</p> <p>The Task Force believes that the same meaning is expressed more succinctly than in the extant Code.</p>

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			<p>account is held under normal commercial terms.'</p> <p>Under the extant Code, since a threat is not created if the deposit or account is held under normal commercial terms, then if the deposit or account is held under commercial terms that are not normal, a threat would be created. However, under the restructured Code, it is a prohibition.</p> <p>KPMG</p> <p>R511.7 (Extant 290.122) Extant language describes circumstances under which having a bank or brokerage account with a financial institution audit client would not create a threat to independence. The restructured Code suggests such relationships are not permitted unless those same circumstances exist, resulting in a prohibition rather than a need to assess threats and safeguards.</p>	
290.123	A close business relationship between a firm, or a member of the audit team, or a member of that individual's immediate family, and the audit client or its management, arises from a commercial relationship or common financial	520.1	<p>A close business relationship between an audit client and a firm, a network firm, an audit team member, or that individual's immediate family member might create self-interest or intimidation threats.</p> <p>DTTL</p> <p>This section does not include a discussion about the threats caused by business relationships of immediate family of audit team members. Presumably this is because the Board felt it is already covered generally by R520.3. However, without the specific</p>	The assumption made is correct. The discussion about threats is covered by the CF without further discussion being included to avoid repetition, both here

	<p>interest and may create self-interest or intimidation threats. Examples of such relationships include:</p> <ul style="list-style-type: none"> • Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client. • Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties. • Distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services. <p>Unless any financial interest is immaterial and the business relationship is insignificant to the firm and the client or its management, the threat created</p>	<p>Section 520 sets out requirements and application material on applying the conceptual framework to these business relationships.</p>	<p>application material it may not be given the proper attention that is warranted.</p>	<p>and in a number of other paragraphs.</p>
		<p>520.4 A1 Examples of a close business relationship arising from a commercial relationship or common financial interest include:</p> <ul style="list-style-type: none"> • Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client. • Arrangements to combine one or more services or products of the firm or the network firm with one or more 		

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	<p>would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, unless the financial interest is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or it shall be reduced to an insignificant level or terminated.</p> <p>In the case of a member of the audit team, unless any such financial interest is immaterial and the relationship is insignificant to that member, the individual shall be removed from the audit team.</p> <p>If the business relationship is between an immediate family member of a member of the audit team and the audit client or its management, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.</p>	<p>services or products of the client and to market the package with reference to both parties.</p> <ul style="list-style-type: none"> • Distribution or marketing arrangements under which the firm or the network firm distributes or markets the client's products or services, or the client distributes or markets the firm's or the network firm's products or services. 		
		<p>R520.4 The firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management unless the financial interest is</p>		

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			<p>immaterial and the business relationship is insignificant to the firm, the network firm or the audit team member, as the case may be, and the client or its management.</p>		
290.124	<p>A business relationship involving the holding of an interest by the firm, or a member of the audit team, or a member of that individual's immediate family, in a closely-held entity when the audit client or a director or officer of the client, or any group thereof, also holds an interest in that entity does not create threats to independence if:</p>	R520.5	<p>The firm, a network firm, an audit team member, or that individual's immediate family member shall not have a business relationship involving the holding of an interest in a closely-held entity when an audit client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:</p>	<p>KPMG R520.5 (Extant 290.124) Similar to the point in B above, extant language describes circumstances in which a business relationship involving a closely held entity would not create threats to independence, whereas the restructured text states that such relationships are prohibited unless the criteria is met</p>	<p>The Task Force believes that there is a change of tone which is short of a change of meaning to simplify the extant Code which is unclear.</p>
	<p>(a) The business relationship is insignificant to the firm, the member of the audit team and the immediate family member, and the client;</p> <p>(b) The financial interest is immaterial to the investor or group of investors; and</p>		<p>(a) The business relationship is insignificant to the firm, the network firm, or the audit team member and the immediate family member, as the</p>		

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	<p>(c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.</p>	<p>case may be, and the client;</p> <p>(b) The financial interest is immaterial to the investor or group of investors; and</p> <p>(c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.</p>		
		<p>520.6 A2 Examples of safeguards include:</p> <ul style="list-style-type: none"> • Eliminating or reducing the magnitude of the transaction. • Removing the individual from the audit team. 		
<p>290. 126</p>	<p>Family and personal relationships between a member of the audit team and a director or officer or other employees (depending on their role) of the audit client may</p>	<p>521.1 A family or personal relationship between an audit team member and a director or officer or other employees of the audit client (depending</p>	<p>APESB Similarly the use of 'might' is also inappropriate in paragraph 521.1 where it is more probable than not that a family or personal relationship between an audit team member and the audit client (in a</p>	<p>The Task Force believes that the use of "might" is acceptable because it also refers to "depending on their role." The Task Force</p>

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	create self-interest, familiarity or intimidation threats.		on their role) might create self-interest, familiarity or intimidation threats. Section 521 sets out requirements and application material on applying the conceptual framework to these family or personal relationships.	position to exert significant influence over the client's accounting records or the financial statements on which the audit firm will express an opinion) will create self-interest, familiarity or intimidation threats.	believes that this suggestion would change meaning.
290.131	<p>Self-interest, familiarity or intimidation threats may be created by a personal or family relationship between</p> <p>(a) a partner or employee of the firm who is not a member of the audit team and</p> <p>(b) a director or officer of the audit client or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion. Partners and employees of the firm who are aware of such relationships shall consult in</p>	R521.6	<p>Partners and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:</p> <p>(a) A partner or employee of the firm who is not an audit team member; and</p> <p>(b) A director or officer of the audit client or an employee in a position to exert significant influence over the</p>	<p>KPMG</p> <p>R521.6 (Extant 290.131) The requirement to consult in accordance with firm policies and procedures regarding certain personal or family relationships has been limited to the firm and not extended to network firm (the extant Code uses the term "firm" and does not explicitly indicate that it does not apply to network firm as would be required per 290.3 unless otherwise stated).</p>	The words "network firm" have been added to the text for clarity.

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	<p>accordance with firm policies and procedures.</p>	<p>preparation of the client's accounting records or the financial statements on which the firm will express an opinion.</p>		
	<p>The existence and significance of any threat will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client; • The interaction of the partner or employee of the firm with the audit team; • The position of the partner or employee within the firm; and • The position the individual holds with the client. <p><u>The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.</u> Examples of such safeguards include:</p>	<p>521.6 A1 The existence and significance of any threat will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client. • The interaction of the partner or employee of the firm with the audit team. • The position of the partner or employee within the firm. 		

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	<ul style="list-style-type: none"> • Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit engagement; or • Having a professional accountant review the relevant audit work performed. 	<ul style="list-style-type: none"> • The position the individual holds with the client. <p>521.6 A2 Examples of safeguards include:</p> <ul style="list-style-type: none"> • Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit engagement. • Having a professional accountant review the relevant audit work performed. 		
290.132	Familiarity or intimidation threats may be created if a director or officer of the audit client, or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, has been a	524.1 An employment relationship between a former partner or employee of a firm and an audit client might create familiarity or intimidation threats. In particular, such threats might be created if any of the following individuals have been	<p>DTTL</p> <p>The extant Code applies the provisions on employment relationships to the firm and the network firms. The ED only applies these provisions to the firm. If this is intentional in the ED, it is a significant change from the extant Code and the justification for such a change is not addressed in the introductory or background materials.</p>	This section has been revisited and "network firm" has been added as appropriate. If the word "firm" is used other than in the context of "the financial statements on which the firm will express an opinion a reference has

	<p>member of the audit team or partner of the firm.</p>	<p>an audit team member or partner of the firm:</p> <ul style="list-style-type: none"> • A director or officer of the audit client. • An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion. 	<p>GTIL</p> <p>Believes the restructuring of the Code has changed the requirements in the Code for network firms as it relates to employment relationships with an audit client.</p> <p>Section 290.13 in the extant Code states "If a firm is deemed to be a network firm, the firm shall be independent of the audit client of the other firms within the network (unless otherwise stated)". Accordingly, the term "firm" in the extant Code includes network firms unless the guidance states otherwise.</p> <p>Sections 290.132-290.139 in the extant Code discusses employment relationships with audit clients and the threats associated with these relationships. The guidance in the extant Code refers to firm, which includes network firms.</p> <p>In the current proposal, Section 524 Employment with an Audit Client only discusses the requirements as they apply to firms and excludes any reference to the network firms' requirements.</p> <p>It is clear in this instance that the restructuring of the Code has in fact</p>	<p>been made to a network firm.</p>
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			<p>changed the meaning of how the independence.</p> <p>We would encourage the Board to review the use of the term “firm” in proposed Section 524 to ensure it is consistent with the application in the extant Code. Furthermore, we recommend the Board review all sections in the proposal to ensure the proposal has not changed the requirements for network firms that currently exist in the extant Code.</p> <p>HKICPA</p> <p>However, we note that the restructured Code does not explicitly require the consideration of network firms when applying the conceptual framework in the following circumstances:</p> <p>Employment with an audit client (proposed section 524).</p>	
290.133	<p>If a former member of the audit team or partner of the firm has joined the audit client in such a position and a significant connection remains between the firm and the individual, the threat would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, independence would be deemed to</p>	<p>R524.2</p> <p>The firm shall ensure that no significant connection remains between the firm and:</p> <ul style="list-style-type: none"> • A former partner who joins an audit client of the firm; or • A former audit team member 	<p>KPMG</p> <p>R524.32 (Extant 290.133) The limitation on partners joining audit clients has not been extended to network firm, as arguably may have been the intent of extant language.</p> <p>ICAEW</p> <p>We think paragraph R524.3 is too subtle in that it refers to partners joining an</p>	<p>This section has been revisited and “network firm” has been added as appropriate. If the word “firm” is used other than in the context of “the financial statements on which the firm will express an opinion a reference has</p>

	<p>be compromised if a former member of the audit team or partner joins the audit client as a director or officer, or as an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, unless:</p> <p>(a) The individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements, and any amount owed to the individual is not material to the firm; and</p> <p>(b) The individual does not continue to participate or appear to participate in the firm's business or professional activities.</p>	<p>who joins the audit client, if either has joined the audit client as:</p> <p>(a) A director or officer; or</p> <p>(b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.</p>	<p>audit client and audit team members joining the audit client. The distinction could be clearer.</p>	<p>been made to a network firm.</p>
		<p>524.3 A1 A significant connection remains between the firm and the individual, unless:</p> <p>(a) The individual is not entitled to any benefits or payments from the firm that are not made in accordance with fixed pre-</p>	<p>DTTL These elements of "significant connection" should be included as part of R524.3 to highlight the importance of meeting these requirements.</p>	<p>The Task Force believes that the meaning is clear and that no further revision is required.</p>

		<p>determined arrangements;</p> <p>(b) Any amount owed to the individual is not material to the firm; and</p> <p>(c) The individual does not continue to participate or appear to participate in the firm's business or professional activities.</p>		
290.142	<p>If, during the period covered by the audit report, a member of the audit team had served as a director or officer of the audit client, or was an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Consequently, such individuals shall not be assigned to the audit team.</p>	<p>R522.3</p> <p>The audit team shall not include an individual who, during the period covered by the audit report:</p> <p>(a) Had served as a director or officer of the audit client; or</p> <p>(b) Was an employee in a position to exert significant influence over the preparation of the client's</p>	<p>HKICPA</p> <p>Specifically, we agree that the term 'firm' is not used to include network firm and that 'network firm' is used only when relevant to considering interests or relationships which may create a threat to independence.</p> <p>However, we note that the restructured Code does not explicitly require the consideration of network firms when applying the conceptual framework in the following circumstances:</p> <ul style="list-style-type: none"> •Recent service with an audit client (proposed section 522) 	<p>"Network firm" has not been added here because this section is addressed to members of the audit team. While an individual from a network firm might be on the audit team, that individual would be included in the audit team definition. Others from the network firm would not be subject to this section.</p>

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290.220	The firm shall determine whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm to be re-appointed or continue the audit engagement.	R410.7	<p>When a significant part of fees due from an audit client remains unpaid for a long time, the firm shall determine:</p> <p>(a) Whether the overdue fees might be equivalent to a loan to the client; and</p> <p>(b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement because of the significance of the overdue fees.</p>	DTTL	<p>The extant Code states “if fees remain unpaid” the threat needs to be evaluated and safeguards applied. One of the factors to be considered is the significance of the fees. The ED states “when <i>significant part</i> [emphasis added] of fees due from an audit client remains unpaid...” This appears to be different threshold for evaluation (any unpaid fees versus a significant part of fees).</p>	The Task Force believes that the language proposed in ED 1 reflects the intent of the extant Code.
290.225	A self-interest threat is created when a member of the audit team is evaluated on or compensated for	411.2 A1	When an audit team member for a particular audit client is evaluated on or compensated for	IRBA	Proposed definitions in the restructured Code:	Whether “Professional Judgement” as set out in the Glossary of Terms of the IAASB

<p>selling non-assurance services to that audit client.</p> <p>The significance of the threat will depend on:</p> <ul style="list-style-type: none"> • The proportion of the individual's compensation or performance evaluation that is based on the sale of such services; • The role of the individual on the audit team; and • Whether promotion decisions are influenced by the sale of such services. <p><u>The significance of the threat shall be evaluated and, if the threat is not at an acceptable level, the firm shall either revise the compensation plan or evaluation process for that individual or apply safeguards to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</u></p> <ul style="list-style-type: none"> • Removing such members from the audit team; or • Having a professional accountant review the work of the member of the audit team. 	<p>selling non-assurance services to that audit client, the significance of the threat will depend on:</p> <ol style="list-style-type: none"> (a) What proportion of the compensation or evaluation is based on the sale of such services; (b) The role of the individual on the audit team; and (c) Whether the sale of such non-assurance services influences promotion decisions. 	<p><u>Professional judgement:</u> <u>The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagements.</u></p> <p><u>Facts and circumstances:</u> <u>Is a broader context that includes relationships, interest, including professional activities (services), interests and relationships.</u></p>	<p>Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements should be included in the Glossary has been noted by the Task Force as a matter for board attention.</p> <p>The Task Force does not believe the phrase “facts and circumstances” needs to be defined as its usage reflects normal English language usage.</p>
	<p>411.2 A2 Examples of safeguards include:</p> <ul style="list-style-type: none"> • Revising the compensation plan or evaluation process for that individual. 		

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		<ul style="list-style-type: none"> • Removing such members from the audit team. • Having a professional accountant review the work of the audit team member. 		
290. 227	<p>Accepting gifts or hospitality from an audit client may create self-interest and familiarity threats. If a firm or a member of the audit team accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Consequently, a firm or a member of the audit team shall not accept such gifts or hospitality.</p>	<p>420.1 Accepting gifts or hospitality from an audit client might create self-interest and familiarity threats. Section 420 sets out requirements on applying the conceptual framework to evaluating gifts and hospitality.</p>	<p>HKICPA</p> <p>We consider that the way the restructured material distinguishes network firms from firms increases the clarity of the roles of firms and network firms when assessing independence for audit and review engagements. Specifically, we agree that the term 'firm' is not used to include network firm and that 'network firm' is used only when relevant to considering interests or relationships which may create a threat to independence.</p> <p>However, we note that the restructured Code does not explicitly require the consideration of network firms when applying the conceptual framework in the following circumstances:</p> <ul style="list-style-type: none"> • Accepting gifts or hospitality from an audit client (proposed section 420) 	<p>This section has been reconsidered and "network firm" has been added as appropriate.</p>

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		<p>R420.3 A firm or audit team member shall not accept gifts or hospitality from an audit client, unless the value is trivial and inconsequential.</p>	<p>KPMG R420.3 (Extant 290.227) The prohibition on gifts and hospitality is not extended to network firm.</p>	<p>The text has been revised to include "network firm."</p>
		<p>430.2 A2 Examples of safeguards include:</p> <ul style="list-style-type: none"> • If the litigation involves an audit team member, removing that individual from the audit team. • Having a professional review the work performed. 		
		<p>300.3 A1 In determining with whom to communicate, the professional accountant might consider:</p> <ul style="list-style-type: none"> (a) The nature and importance of the circumstances; and (b) The matter to be communicated. 		<p><i>Derived from 100.25.</i></p>

		<p>300.3 A2 If a professional accountant communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, communication with all of those charged with governance might also be necessary to ensure they are adequately informed.</p>	<p>Assirevi</p> <p>Under the present paragraph 100.25, if a professional account communicates with a subgroup of "Those Charged with Governance" ("TCWGs"), he should determine whether the information should also be sent to all the other TCWGs.</p> <p>The version of the Code dealt with in the Exposure Draft reports the same proposition in paragraph R300.3. However, paragraph 300.3 A2 is added, which specifies as follows:</p> <p>"if a professional accountant communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, communication with all of those charged with governance might also be necessary to ensure they are adequately informed."</p> <p>The rewording of this passage does not seem purely formal. In fact it appears to require the auditor to communicate with all the TCWGs, if he believes it necessary, in order to ensure that they are properly informed. Even if this guidance does not constitute an obligation, it would seem to tend towards the constant extension of communication to all TCWGs, since it</p>	<p>The Task Force does not believe that meaning has been changed.</p>
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			does not explain in which situations it is necessary for the auditor to take this action	
		411.1 Evaluating or compensating an audit team member for selling non-assurance services to that audit client might create a self-interest threat. Section 411 sets out requirements and application material on applying the conceptual framework to compensation and evaluation policies.	DTTL The extant Code states a threat “is created” while the ED states “might create”.	The text has been modified so as to revert to the language of the extant Code.

(GLOSSARY)

Item	Extant Code	Draft Restructured Code	Comments	Notes
	Definitions	Glossary		
Engagement Period		The engagement period starts when the audit team begins to perform audit services. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has terminated or the issuance of the final audit report.	IRBA “Engagement Period” is defined in the context of an audit. This concept also applies to non-audit assurance engagements. This definition should either include both types of engagements or describe “engagement period” in the respective sections C1 and C2.	New defined term from 290.30. A further definition will be prepared when Independence for Assurance Engagements is restructured.
Reasonable and Informed Third Party		The reasonable and informed third party is a concept which involves a hypothetical person. Such person possesses skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant’s judgements and conclusions. This evaluation entails weighing all the relevant facts and circumstances that the professional accountant knows, or could reasonably be expected to know, at the time that the evaluation is made, to determine whether the professional accountant has complied with the fundamental principles. This term is described in paragraph 120.4 A1	Assirevi An example of this is the newly introduced definition of a "reasonable and informed third party", which, in our opinion, seems to require a logical process of the evaluation of threats to independence which would appear to diverge from the process at present stated in the Code. Actually, the definition proposed by the amendments in question	Referred to the Safeguards Task Force. The Safeguards Task is exploring revisions to clarify the description of the reasonable and informed third party. See Agenda Item 2-B.

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Item	Extant Code	Draft Restructured Code	Comments	Notes
			<p>provides for the "reasonable and informed third party" to make its evaluations by "weighing all the relevant facts and circumstances that the professional accountant knows, or could reasonably be expected to know, at the time that the evaluation is made." On the contrary, in the current version of the Code, the "reasonable and informed third party" focuses on "all the specific facts and circumstances available to the professional accountants at the time."</p> <p>This is a far from insignificant amendment, which in our opinion cannot be agreed upon, especially for the purposes of an ex post verification of the auditor's behaviour.</p> <p>We remind you that the "reasonable and informed third party" test is aimed at assessing whether the accountant's conclusions</p>	

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Item	Extant Code	Draft Restructured Code	Comments	Notes
			<p>regarding the reducibility of risks to an acceptable level are correct.</p> <p>Hence the test must be conducted on the basis of facts and circumstances known to the accountant at the time he reaches his conclusions and should not, on the contrary, be based on facts and circumstances which could only theoretically be known to him.</p>	

Key to Respondents Mentioned in this Paper

#	Abbrev.	Respondents	Region
Regulators and Oversight Authorities			
1.	IOSCO	International Organization of Securities Commissions	Global
2.	IRBA	Independent Regulatory Board for Auditors (South Africa)	SA
National Standard Setters			
3.	APESB	Accounting Professional & Ethical Standards Board Limited-Australia	AP
Firms (10)²			
4.	BDO*	BDO Global Coordination B.V.	Global
5.	DTTL*	Deloitte Touche Tohmatsu Limited	Global
6.	EYG*	Ernst and Young	Global
7.	GTIL*	Grant Thornton International Limited	Global
8.	KPMG*	KPMG	Global
IFAC Member Bodies and Other Professional Organizations (29)			
9.	Assirevi	Assirevi	EU
10.	CAANZ	Chartered Accountants Australia and New Zealand	AP
11.	FEE	Fédération des Experts Comptables Européens	EU
12.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
13.	ICAEW	The Institute of Chartered Accountants in England and Wales	Global

² Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies.

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#	Abbrev.	Respondents	Region
14.	ICAS	The Institute of Chartered Accountants of Scotland	EU
15.	IDW	Institut der Wirtschaftsprüfer	EU
16.	ISCA	Institute of Singapore Chartered Accountants	AP
17.	SAICA	The South African Institute of Chartered Accountants	MEA
18.	SMPC (IFAC)	IFAC Small and Medium Practices Committee	Global