

## Supplement 3 to Agenda Item 3

### Supplement 3 to Agenda Item 3 Structure – Compilation of Specific Comments: Responses to Questions in Exposure Draft: Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1 (Structure ED-1)

**Note:** This supplement has been prepared for information only. A comprehensive summary of the significant comments received on the December 2015 exposure draft (ED), [Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1](#), and the Task Force’s related analysis of significant issues and proposals will be presented at the June 2016 IESBA meeting. All comment letters on the ED can be accessed [here](#). **Please consider the environment before printing this supplement.**

*In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:*

- (a) Small and Medium Practices (SMPs) – The IESBA invites comments regarding the impact of the proposed changes for SMPs.
- (b) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular, on any foreseeable difficulties in applying them in their environment.
- (c) Translations—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

**Note:** Members of the Monitoring Group are shown in bold below.

#	Source	Stakeholder Category	Detailed Comment
1.	AAT	Member Bodies and Other Professional Organizations	<p><b>2. Executive summary</b></p> <p>2.1. AAT concurs with the IESBA’s view that there was a need to change the structure of the code to ensure that accountants can understand the code and ensure that the code itself is useful.</p> <p>2.2. AAT is also aware of the challenges in changing the structure of the code of ethics for professional accountants and ensuring that the meaning of the code is the same. However the proposed restructure is a welcomed development as AAT had received feedback from its members where the general opinion was that it was hard to understand and read.</p>

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2.	ACCA	Member Bodies and Other Professional Organizations	<p>We support the objectives of this IESBA project, and agree that appropriate restructuring will improve the understandability and usability of the Code, and so improve implementation and enforcement. A logical and well-structured Code, which is not of excessive length, will enhance the Code’s transparency and usefulness. ACCA believes that this will lead to higher standards of ethical behaviour among professional accountants, in the public interest.</p> <p>The increased prominence of the requirements throughout the Code is important to achieving clarity. However, inconsistencies and ambiguities remain. Paragraph 6 of the Guide to the Code states ‘The Code requires professional accountants to comply with the fundamental principles of professional ethics.’ However there is no overall requirement in the Code itself that states this.</p> <p>The status of the Guide to the Code itself is unclear. Although paragraph 4 states that it is part of the Code, it would seem illogical to that a guide to the Code can also be the Code. The confusion is compounded by the numbering of the paragraphs in the guide that do not conform to the convention throughout the Code itself.</p> <p>In highlighting the requirements throughout the Code, care must be taken not to undermine a professional accountant’s ability to exercise professional judgement. In this respect, we believe that explicitly requiring compliance with the conceptual framework (R120.3) may be inadvisable. The requirement should be to comply with the fundamental principles and to safeguard them when they are threatened. The conceptual framework should be seen as a tool for achieving compliance, and so to require compliance in the manner proposed may obstruct true engagement with the framework at the right time and for the right reasons.</p> <p>We also believe that Part A is undermined by referring to it as the ‘Introduction to the Code and fundamental principles’ (emphasis added), when it is, in fact, the essence of the Code. We suggest that an appropriate title for Part A would be ‘The Code and Fundamental Principles’, or simply ‘The Code’. This would also have the advantage of making the status of the Guide to the Code clearer.</p> <p>We are pleased that steps have been taken to streamline the Code, including appropriate cross-referencing back to the conceptual framework. This serves to avoid unnecessary repetition, and also to uphold the importance of the conceptual framework. Nevertheless, we remain concerned that the length of the Code is still a barrier to its navigation and understanding. Essentially, it may discourage users from reading and understanding the Code’s fundamental requirements.</p>

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			<p>We believe that the proposed title is confusing as it combines the terms ‘code’ and ‘standards’, which are very different things. The Code is designed to influence behaviours, and not to provide standards that are enforceable when a particular benchmark is not reached. While it is important for professional accountants to demonstrate and document compliance with the requirements, we believe the Code should primarily focus on behaviours, and standards should be clearly set apart. Therefore, we suggest that the current title of the Code should be retained. We also advocate completely separating the independence standards from the Code, in order to reinforce the importance of both and the differences between them.</p> <p>ACCA has developed this response following an internal due process, and we have attempted to reflect the opinions of a wide range of stakeholders represented, in part, by members of our Global Forum for Ethics. We make the following further observations, relevant to specific groups of stakeholders.</p> <p><b>Small and Medium Practices (SMPs)</b></p> <p>We believe that the proposals represent a significant improvement with regard to the impact they are likely to have on the understanding of professional accountants within SMPs. The reduction of duplication, and the effective use of cross-referencing, will make the Code more accessible. However, we believe more can be done in these respects. As a guiding rule, we would advocate a ‘think small first’ approach, so that the Code is applicable to all professional accountants, and equips them to respond to any situation – on their own behalf or on behalf of their firms.</p> <p>We also believe it is important that those working within SMPs have easy access to more detailed information when they need it. However, we would not be supportive of increasing the length of the Code, as conciseness aids understanding and implementation. Supporting guidance and tools, such as case studies and frequently asked questions, would greatly enhance understanding and engagement with the Code, especially among professional accountants within SMPs.</p> <p><b>Developing Nations</b></p> <p>Member bodies in different parts of the world operate within a range of cultural environments and clarity and conciseness are important in this respect. The simplicity of the proposed structure of Part A (subject to comments we have previously made in respect of misleading titles, surplus text and complex numbering), which remains principles-based, can help to provide a clearer framework, while providing the flexibility for tailored implementation guidance by professional bodies, including those in developing nations. There remains, however, a responsibility of the IESBA to provide detailed guidance for those who might benefit</p>

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			<p>from it, which would aid consistency of understanding and interpretation across all IFAC member organisations.</p> <p><b>Translations</b></p> <p>Ease of translation is of great importance to a global standard-setter, and it appears that the restructuring of the Code has paid due regard to this. In our opinion, the proposals include clarified language, consistent definitions and (subject to our comments above) a logical structure. While we are not aware of any potential translation issues, the IESBA should remain alert to this in proposing further changes to the existing wording.</p>
3.	AIA	Member Bodies and Other Professional Organizations	<p>The AIA broadly welcomes the first phase of improvements proposed by the IEASB in this exposure draft and is happy to provide the following detailed comments responding to the specific requests below. We would however observe that, in its current format, the Code is not presented in a user friendly manner and as yet does not empower users to readily access specific sections, nor readily distinguish between requirements and application. As such an important embodiment of the values of the accounting profession we would welcome a more dynamic and stimulating presentation to encourage its assimilation into the living documents of the practitioner and student.</p>
4.	AICPA	Member Bodies and Other Professional Organizations	<p>We support the IESBA's objective of setting high-quality ethics standards for professional accountants around the world and facilitating the convergence of international and national ethics standards.</p> <p>Overall, we support the proposals contained in the Exposure Draft with some specific concerns described below in the "Responses to Request for Specific Comment."</p>
5.	APESB	National Standard Setters	<p>APESB is supportive of the IESBA's project to revise the structure of the existing Code. We believe that the restructuring will raise the visibility of the Code's requirements, simplify the Code's language and assist professional accountants in understanding and applying the requirements of the Code.</p> <p>We commend the IESBA on its significant progress to date on this important project and its consideration of stakeholders' feedback from the initial 2015 consultation paper, and its extensive global outreach activities undertaken in the development process of the Structure ED.</p> <p>In developing APESB's response to the Structure ED, we have taken into consideration Australian stakeholders' feedback from two roundtable events conducted by APESB in Melbourne and Sydney in March 2016. We look forward to the IESBA's work on the second phase of the Structure ED project that</p>

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			<p>will offer us the opportunity to assess the changes to the Code as a whole. Where required, APESB will reconsider our recommendations in this submission once the IESBA’s developments are announced in the Structure ED Phase 2.</p> <p>Subject to APESB’s key recommendations noted below, APESB strongly supports the IESBA’s proposed revisions in the Structure ED. APESB has also responded to the IESBA’s general and specific questions in Appendix A.</p> <p>Recommendations</p> <p>APESB’s key recommendations for IESBA’s consideration are:</p> <ul style="list-style-type: none"> <li>• state the whole requirements paragraph in bold to enhance the prominence of mandatory requirements (page 3);</li> <li>• enhance the requirement to apply the Conceptual Framework by creating electronic linkages and cross references to the specific requirements in the Code’s fundamental principles and the Conceptual Framework (page 4);</li> <li>• the IESBA reconsider whether some of its drafting conventions are appropriate by performing a comprehensive review of the Structure ED in respect of instances where the term ‘might’ is used and to critically assess whether any requirements of the extant Code is diluted (page 5);</li> <li>• classify the International Independence Standards as a new Part D to place more prominence on the Independence requirements (page 7);</li> <li>• link the Independence Standards with both the fundamental principles of Integrity and Objectivity and the application of professional scepticism (page 8);</li> <li>• relocate the Ethical Conflict Resolution guidance to be within the Code (e.g. section 120 The Conceptual Framework) rather than the Guide to the Code (page 8);</li> <li>• relocate the glossary to the beginning of the Code potentially after the Guide to the Code (page 9);</li> </ul> <p>and</p> <ul style="list-style-type: none"> <li>• refer explicitly to the terms ‘audit’ or ‘review’ in C1 to avoid any confusion when professional accountants refer to specific sections of the Code in isolation (page 10).</li> </ul> <p>APESB’s specific editorial suggestions are included in Appendix A for the IESBA’s consideration</p>

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6.	Assirevi	Member Bodies and Other Professional Organizations	<p>1.1 Comments on the content, which is not merely formal, of some amendments proposed in the Exposure Draft</p> <p>This Association believes that the purpose of <i>"enhancing the understandability and usability of the Code"</i> is one that it entirely agrees with.</p> <p>In general, as already mentioned in the discussions regarding <i>"Proposed Revisions Pertaining to Safeguards in the Code"</i>, this Association agrees with the intention to make the contents of the Code of Ethics more understandable and also feels that it is extremely important to stress that amendments to be made to the Code should only be formal or linguistic and should not constitute changes to its substance (see <b>Question no. 3 of the Exposure Draft</b>).</p> <p>An example of this is the newly introduced definition of a <i>"reasonable and informed third party"</i>, 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 provides for the <i>"reasonable and informed third party"</i> to make its evaluations by <i>"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"</i>. On the contrary, in the current version of the Code, the <i>"reasonable and informed third party"</i> focuses on <i>"all the specific facts and circumstances available to the professional accountants at the time."</i> This is a far from insignificant amendment, which in our opinion cannot be agreed upon, especially for the purposes of an <i>ex post</i> verification of the auditor's behaviour. We remind you that the <i>"reasonable and informed third party"</i> test is aimed at assessing whether the accountant's conclusions regarding the reducibility of risks to an acceptable level are correct. 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> <p>The same critical issues are also reported in relation to the new version of the definition of <i>"acceptable level"</i>. Actually, the proposal in the Consultation Paper eliminates the following sentence: <i>"weighing all the specific facts and circumstances available to the professional accountants at that time."</i></p>

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			<p>If we were to follow the new approach, the facts and circumstances available to the <i>"reasonable and informed third party"</i> at any given time would appear to be no longer of any significance for the purposes of the identification of the <i>"acceptable level"</i>. The assessment made by the <i>"reasonable and informed third party"</i> would end up being completely disconnected from any reference criteria.</p> <p>The examples we have briefly mentioned above, in our opinion, show that the proposed change appears to be significant in respect of the current framework, and it is not limited to a mere restatement of existing provisions but in fact implies a modification regarding which this Association wishes to express its doubts.</p> <p>The amendment made to the new paragraphs 115.1 A1, R31 0.7 and R310.14. must also be considered from this perspective. The passages also omit the following sentence: <i>"weighing all the specific facts and circumstances available to the professional accountants at that time."</i> This entails a consequent change of the approach adopted in the application of the provisions concerned.</p> <p>According to our analysis, also the transposition of paragraph 210.2 to paragraph 320.3 AI ,behind an apparently formal variation, would appear to imply a significant change of approach. Actually, the interpolated sentence <i>"if known"</i> has been deleted in paragraph 320.3 A 1. A deletion of this kind could have quite important consequences, because according to the approach taken in the rephrased paragraph, the assessment of the risks to integrity and <i>"professional behaviour"</i> 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> <p>1.2 Comments on the cross-references between paragraphs</p> <p>As regards another aspect, one of general method, it is to be underlined that cross-references to other sections of the Code have been added in some rephrased paragraphs. This course would seem to have been taken in order to allow the reader to find other paragraphs containing more detailed information and explanations for a more thorough understanding of the standard in question. Nevertheless, in our opinion, it can be seen that the paragraphs to which the reader is referred do not contain any more detailed rules but limit themselves to repeating the contents of the original paragraph. This Association hopes that the actual utility of cross-references of this kind will be considered and feels that it would be advisable, should it be decided to keep to this method, for the</p>

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			<p>paragraphs to which the reader is referred to be expanded with standards and descriptions of use to the reader.</p> <p>By way of example, it should be noted that the paragraphs characterised by the critical issues described above are the definition of "acceptable level" and paragraph 310.7 A2.</p> <p>1.3 Comments on the desirability of the Code continuing to take a rule-based approach</p> <p>Finally, we find that also in distinguishing requirements from application material IESBA should continue to pursue the objective of drawing up a Code based on a "principle-based approach". On this point, we refer to what we already pointed out in our reply to the Exposure Draft regarding "safeguards", in which we underlined that in revising the Code of Ethics the "principle-based approach" which is its core element should not be lost sight of (see Question no. 1b of the Exposure Draft).</p> <p>1.4 Formal amendments and their transposition into the other languages into which the Code of Ethics is translated</p> <p>Finally, as clarified by the IESBA in the Explanatory Memorandum, some paragraphs of the Code have been merely re-worded: specifically, the tenses of some verbs have been changed or some terms have been replaced with synonyms.</p> <p>Considering that the Code of Ethics is also translated into other languages, in theory all the amendments in the Exposure Draft should also be subject to translation.</p> <p>Any changes in style, however, that have been made in order to make the contents more understandable to an English language reader, may not need to be translated into other languages. Nevertheless, Assirevi would suggest that IESBA clearly state which amendments are purely changes in the language style, so that the entities which are to adopt the variations locally can consider whether or not to make changes to the texts in force.</p>
7.	BDO*	Accounting Firms	<p>We are supportive of the restructured Code. However, the proposed changes have highlighted certain areas for improvement that currently exist within the extant Code. We support moving ahead with the restructure project with the understanding that the areas for improvement that will not be addressed as part of the restructured Code will be addressed through separate projects in the future.</p>

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			<p>We believe the distinction between requirements and application material supports the objective of the ED. The application material will be of great value for users in understanding the Code. In this regard, the diagram is helpful to show what sections are applicable to the different types of professional accountants. Overall, the restructured Code is now more understandable than the extant Code.</p>
8.	CAANZ	Member Bodies and Other Professional Organizations	<p>Section 112 is providing additional explanation regarding the fundamental principle of Objectivity. Threats and safeguards are not introduced until Section 120. Reference to threats and safeguards should not be made at paragraphs 112.2 A1 and A2 without cross referencing to section 120.</p> <p>It would be helpful to add some guidance on other useful ways to obtain information on threats where communication with the existing accountant is not possible.</p>
9.	CHI	Accounting Firms	<p>We observe that IESBA has to continue to support the written word of the Code through other means of communication and engagement in order to achieve the desire level of adoption, effective implementation and consistent application.</p> <p>IESBA should be collaborating with the IAASB to ensure consistency between the Code and the IAASB's Standards. We note the comments in paragraph 19 of the Explanatory Memorandum. As it will be several years before the IAASB's Standards are revised following the Enhancing Audit Quality consultation, IESBA and IAASB should be working now to ensure consistency between the Code and the IAASB's Standards in their current form.</p>
10.	CIMA	Member Bodies and Other Professional Organizations	<p>Some of the terms may not translate very well for example "conceptual framework", "application material", "remain alert to" (as in R310.13), "conflict identification process" as in 310.7 A1)</p> <p>Some of the words may not translate very accurately. For example the word "warranted" in the proposed R320.7.</p> <p>Some of the sentences used are very long and some of the sentences are convoluted – for example the proposed 115.1 A1 on page 26 of the mapping table.</p> <p>There are some areas where the need to consider principles and requirements against each other is not explicit. For example the proposed 320.4 A3 – how does this conflict with another professional accountant's obligation of confidentiality?</p>

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			<p>There may be a typographical error in 310.10 A1 “interests or relationships” or if this is the intended wording then it is not easily understandable.</p> <p>Other Comments</p> <p><u>Guide to the Code</u></p> <p>P 17. 9. “Where application material includes lists of examples, these lists are not intended to be read as exhaustive lists of all possibilities or circumstances that might arise”. We are concerned that this paragraph may be easily missed, especially when considering how the Code is likely to be used. (i.e. professional accountants seeking requirements and guidance on a specific issue). We would suggest including a short proviso at the beginning of every list.</p> <p><u>Those Charged with Governance</u> (P 34) R300.3 with 3003A1 and 2 - this is an example of where the text does not fit obviously into requirements or application. The requirement here is only applicable <u>when</u> the PA has used professional judgement to decide whether to go to those charged with governance (see 112.2 A2)</p> <p>R300.3 does not encourage escalation in steps.</p> <p>Former 210.4 referring to the requirement upon the PA to decline to enter into a client relationship. This paragraph is not included on the basis that it is covered in the conceptual framework language. We suggest that there should be specific advice (perhaps added in to 320.3 A5).</p>
11.	CPA Canada	Member Bodies and Other Professional Organizations	<p>Thank you for the opportunity to provide our comments on this Exposure Draft. Although we appreciate the workload involved in IESBA’s recently published timetable, we respectfully suggest our preference would have been to consider all sections of the Code simultaneously so that respondents could examine the re-structuring in its entirety. We believe this would enhance the ability of accounting bodies to conduct meaningful consultations with stakeholders, increase efficiency and enable more thorough responses.</p> <p>Generally, we found that the restructuring of the Code added to the quality and understandability of the sections provided in the Phase 1 review. We noted the research and consultation effort that had been conducted by IESBA in developing this Exposure Draft. Overall, we found the Exposure Draft materials to be understandable, the language to be clear and the navigability improved. However, without current application and use of the IESBA Code in Canada, we were unable to consider whether meanings had been inadvertently changed through the re-structuring process.</p>

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12.	CPAA	Member Bodies and Other Professional Organizations	<p>As mentioned in our comments to IESBA’s Consultation Paper: Improving the Structure of the Code of Ethics for Professional Accountants (CP), CPA Australia supports IESBA’s commitment to an approach that is primarily principles and professional judgement based. We are of the opinion that a code of ethics and the exercise of professional judgement are key characteristics of the profession.</p> <p>Overall, we are of the view that the proposed revised Code requires further refinement and review and we urge IESBA to prioritise the quality and completeness of the restructured Code rather than the expeditiousness of its issue.</p> <p>Specifically, we are of the view that this project provides the best opportunity to create a Code which contains a section for all professional accountants, thus merging extant parts A and C, and a section that addresses specific requirements for public practitioners and independence for audit and review engagements.</p> <p>We do not support the insertion of the concept of standards in the Code’s title. Standards are typically understood as regulation and we are of the view that while accounting and auditing standards are exactly that, the Code provides the principles that form the foundation of the accounting profession.</p> <p>CPA Australia considers it necessary for the Code to clarify and explain the interaction between independence, the principles and the conceptual framework.</p> <p>Our comments in this submission will not address specific issues raised in our submissions to IESBA’s Exposure Draft: Proposed Revisions Pertaining to Safeguards in the Code – Phase 1, particularly in relation to the conceptual framework, the ‘Reasonable and Informed Third Party’ and ‘Acceptable Level’, or Consultation Paper: Improving the Structure of the Code of Ethics for Professional Accountants. We provide comments to the specific questions below.</p>
13.	DSF Juvenal	Individual	<p>a) I agree with Code for Small and Medium Practices (SMPs) regarding the impact of the proposed changes for SMPs.</p> <p>b) I agree with Developing Nations recognizing that many developing nations have adopted or are in the process of adopting the Code.</p> <p>c) I agree with Translations recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments.</p>

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14.	DTT*	Accounting Firms	<p>It is in the public interest for the Code of Ethics for Professional Accountants (“Code”) to be understandable and enforceable and we are supportive of efforts that will improve the readability and usability of the Code. We recognize that the restructure of the Code is a very significant project that is demanding an enormous amount of effort not only from the Board, but from many external stakeholders.</p> <p>When considered together with the safeguards project and subsequent phases of work, we are concerned about the strain being placed on stakeholders and the Board’s ability to maintain momentum and interest. We consider that there is still much more work to do to ensure that the public interest objectives, and ultimately the global adoption of the Code, are not undermined.</p> <p>Of most concern to us is the proposed project timetable and effective date. Taking into account all the other projects underway, we continue to question the achievability of having a final version in early 2017. The timeline set forth by the Board does not seem feasible if the Board wishes to produce a high quality, and technically correct, restructured Code.</p> <p>We also note that without a complete restructured Code to consider, our comments in this letter are evidently limited to the material provided in Phase I. We request that the Board not make any decisions about the content of this Exposure Draft until stakeholders have had the opportunity to review and comment on the restructured Code in its entirety, including the results of Phase 2, the safeguards project, the other EDs under exposure or consideration, and the consultation on International Standard on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.</p>
15.	EYG	Accounting Firms	<p>We fully support efforts to by the International Ethics Standards Board for Accountants (IESBA, or the Board) to restructure the Code of Ethics for Professional Accountants (the Code) to enhance its understandability and usability. We also agree that such improvements will likely increase the frequency of adoption, effective implementation, consistent application, and enforcement of the Code. We agree that there are opportunities to reduce the complexity and improve the clarity of the Code, and the changes being proposed are generally in keeping with these stated objectives by raising the visibility of the Code’s requirements, clarifying who is responsible for compliance and clarifying the language in the Code. Further, we acknowledge that the redrafted content under review as part of Phase 1 largely complies with the Board’s important precept that “it is not the purpose of the project to change the meaning of the Code” and the proposed changes are viewed as favorable.</p>

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			<p>However, notwithstanding our overall support for the project to restructure the Code, we have identified some potentially problematic changes, some areas where the restructuring may not be meeting the intended objectives and a number of sections which we believe still could be further improved. A high level summary of our concerns is contained below and by attachment more detailed observations and suggestions for improvement are included. The Board is also seeking input to six specific questions, and our responses are organized accordingly below.</p> <p><b>Quality of End Product</b></p> <p>Although we support the overall objectives of the Structure project and acknowledge that substantial progress has been made, we believe additional work on behalf of the Task Force and further dialogue with stakeholders is required before finalizing the re-structured Code to ensure the stated objectives, particularly enhanced clarity and understandability, are fully achieved. While content has been re-organized, we believe clarity can be further improved. We believe this to be a consequence of taking the existing wording of the Code and re-arranging it with the result that wording that suited the existing structure may be ill-suited to the revised structure. Although we have stated in the past that the Structure project should not introduce changes to the meaning of the Code and have cautioned against changes that could have unintended consequences, we recognize that in re-organizing the content changes in the wording may be required to improve the overall quality of the Code.</p> <p>Significant reliance is being placed on stakeholder review of the proposed content, but it is difficult to assess the full impact of proposed changes when reviewing discrete sections of the Code rather than its entirety, and especially in light of the other projects concurrently underway. We look forward to further opportunity to review and comment on the restructured Code in its entirety at the appropriate time. Although much has been accomplished, we believe further work is required if this project is to result in a meaningfully improved Code.</p> <p><b>Objectivity and Independence</b></p> <p>We are concerned that certain language being introduced to the Code as part of the Structure project may inadvertently impact the way the fundamental principle of objectivity is related to independence.</p> <p>Sections 112.3 A1 and 400.1 introduce the notion that independence is “a measure of objectivity”. As currently drafted, this wording could be interpreted to mean that if a professional accountant is deemed not to be independent, the professional accountant would not be objective. Although objectivity and</p>

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			<p>independence are inter-dependent, the relationship between the two is not symmetrical. Independence is a condition that helps assure that an auditor is able to act with objectivity as well as integrity and professional scepticism but lack of independence does not necessarily result in lack of objectivity. In fact, the current provisions of the Code regarding breaches make it clear that an accountant may not be independent but may continue to be objective. Such a case could exist, for example, if an audit engagement team was unaware of a significant breach of independence at the time it performed the audit.</p> <p>Objectivity – applicability to all professional accountants</p> <p>New language has been introduced to the Guide to the Code which, we believe, describes the relevance of the fundamental principle of Objectivity too narrowly. Paragraph 3 of the new Guide to the Code references objectivity only in relation to audits, reviews and other assurance engagements. We believe this statement minimizes the importance of the principle of objectivity for professional accountants in public practice providing professional services other than audits, review and other assurance engagements and suggest this language be revisited to capture its broader applicability.</p> <p>Conceptual Framework</p> <p>Although we support the Board’s interest in raising the profile of the conceptual framework within the Code, we believe significant ambiguity has been created in the Phase 1 re-drafting and we encourage the Board to closely review the Board’s approach for clarity and consistency. We have observed inconsistent use of reference to the conceptual framework from section to section. Many sections begin with the need to apply the conceptual framework and then follow with specific prohibitions. Other sections begin with specific prohibitions followed by the need to apply the conceptual framework, while other sections contain no specific prohibitions and only require the application of the conceptual framework. We agree that application of identified prohibitions is not sufficient and the professional accountant should consider other relevant threats that may arise from specific facts and circumstances, but believe that the correct order is to first assess whether there exists a specific prohibition in respect of the relationship under review and, where there is none, proceed to an assessment of threats under the conceptual framework.</p> <p>We also believe the reminder to apply the conceptual framework should be removed from the heading sections of the Code. The inclusion of this statement in every heading section is repetitive and is unnecessary in light of enhanced discussion of the framework that is being added to the body of the Code.</p> <p>Network Firm</p>

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			<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 Code. We have particular concerns on unintended changes in meaning and lack of clarity with respect to network firms in the following sections:</p> <p>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> <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> <p>Professional Accountant</p> <p>We have observed inconsistency in usage of the term professional accountant. In some places in the Code the term “professional accountant” is used and in others the term “accountant” (excluding the adjective “professional”) is used. Users of the Code might be confused as to whether there is an intentional distinction trying to be made by using either the defined term “professional accountant” or the undefined term “accountant”.</p> <p>New provision 110.1(b) (extant 100.5)</p> <p>We have noted a number of instances where the transition of passive to active voice simultaneously with the reversal of subject and object has resulted in a change in meaning.</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</p>

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			<p>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>Other examples of where the change from passive to active voice may result in an unintended changes in meaning are included in the attachment to our response.</p>
16.	FAR	Member Bodies and Other Professional Organizations	<p>In FAR's opinion the project of improving the structure of the Code in order to increase its usability and understandability is laudable. However, it is still difficult to conclude whether the end result will make the content of the Code more accessible to the individual accountant or if it is just a matter of reorganizing the material. FAR would have expected the text to be even further edited and shortened. FAR does not really find the proposed structure to be more perspicuous and less complicated than the extant Code, but this might be due to the novelty with the new outline and familiarity with the extant Code.</p> <p>(a) The proposed changes should make the Code more accessible for everyone, including SMPs, which is good. However, in FAR's opinion, the changes probably do not make such a remarkable difference that the SMPs will find that they have a particularly positive impact on their efforts to apply the fundamental principles in their daily work.</p> <p>(b) Not applicable.</p> <p>(c) For the moment, FAR has not noted any potential translation issues.</p>
17.	FEE	Member Bodies and Other Professional Organizations	<p>As a first remark, these comments should be understood as preliminary as the Federation would like to assess Phase 2 of this project, as well as the outcome of other EDs currently under consultation, before expressing any final opinion on the overall impact of the proposed changes to the Code. Nevertheless, we welcome IESBA's initiative on restructuring the Code as this is key to the objective of enhancing its understandability and usability and therefore contributing to wide spread application by professional accountants.</p> <p>That said, we believe that the proposed title is misleading as the intention is not to develop standards for all parts of the Code. Mixing the terms "Code" and "Standards" in the title is not the right approach. We believe that the fundamental principles (particularly integrity and objectivity) primarily address the mind-set and behaviour of the professional accountant. As such, these principles do not fit into a purely legalistic</p>

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			<p>concept of compliance and enforcement. On the contrary, the concept of independence was developed as a proxy for objectivity and may well be subject to compliance and enforcement measures.</p> <p>It is important to distinguish between the fundamental principles and those principles that may result in standards. The fundamental principles as currently set out in Part A of the Code primarily address the mind-set and require the professional accountant to apply a consequent behaviour and to exercise professional judgment. Standards, in our view, can be derived from such fundamental principles; but such standards should primarily be designed to provide organisations and individuals with a framework that allows them to demonstrate and document their compliance with the requirements (which, as a consequence, would also make the standards easier to enforce). As an example, independence can be seen as a concept derived from the fundamental principles that can be enforced. Without losing sight of the importance of enforceability, the main concern of the Code should remain to address the mind-set and behaviour of the professional accountant instead of promoting mere compliance with a set of provisions. On the other hand, compliance with each of the requirements does not necessarily mean compliance with the fundamental principles, and this aspect should be emphasised in this restructuring exercise.</p> <p>We favour a ‘building block’ or a ‘layered’ approach that could be easily scalable – a core block for all professional accountants (including small- and medium-sized practices that do not deal with Public Interest Entities) and complementing blocks dealing with specific activities or circumstances. This can be easily implemented with a proper electronic tool that enables, among other features, the distinction between provisions applicable to Public Interest Entities (PIEs) and non-PIEs in the proposed Parts B and C of the Code. This approach would also help reduce the length of the Code that needs to be considered by most professional accountants.</p> <p>Regarding the allocation of responsibilities between firms and individuals, we welcome the approach of maintaining the existing link between the Code, ISQC 1 and ISAs and are satisfied with the approach taken by IESBA in deferring further consideration on this matter until the outcome of the IAASB’s project on ISQC 1. Although firms and professional accountants each have responsibilities to comply with independence requirements, the Code should stick to the principle that it addresses professional accountants in general (that include firms in the definition) and therefore should not include any specific requirements addressed to firms or network firms.</p> <p>(a) The Federation believes that it would be very useful to distinguish between provisions applicable to PIEs and non-PIEs in the proposed Parts B and C of the Code. This distinction could help make the</p>

#	Source	Stakeholder Category	Detailed Comment
			<p>provisions of the Code more understandable to SMPs. There is still room for improvement to make clear to SMPs what provisions of the Code are applicable to them or not.</p> <p>We favour a ‘building block’ or a ‘layered’ approach that could be easily scalable – a core block for all professional accountants (including SMPs that do not deal with PIEs) and complementing blocks dealing with specific activities or circumstances. This approach would also help reduce the length of the Code that needs to be considered by most professional accountants. This core block should contain the overarching matters such as the fundamental principles and further layers would contain more detailed requirements. We think that the electronic Code can help in this regard.</p> <p>(b) The Federation has no comment on this question.</p> <p>(c) For non-English-speaking countries and countries that have only recently translated the Code, the modification of the structure of the Code will likely be very costly in order to adapt their current provisions to the new structure of the Code.</p> <p>On the other hand, changing the meaning of some provisions in the Code, as referred to in our response to question 3, may have an impact on the translation of the Code. This will need to be properly assessed.</p> <p>As stated in the general comments, the Federation would like to assess Phase 2 of this project before expressing its final opinion on the overall impact of the proposed changes to the Code. A strong cost-benefit exercise will need to take place after consolidating Phase 1 and Phase 2 – not only from IESBA, but also from users and other stakeholders.</p>
18.	FSR	Member Bodies and Other Professional Organizations	<p>Standards, principles and enforceability</p> <p>Over time, enforceability has become a benchmark to define a standard. Although the conceptual framework remains a key element of the Code, we fear that this restructuring may be seen as a shift to a more rules-based code, mainly due to enforceability reasons, as too much focus is being put on compliance rather than application.</p> <p>We believe that the fundamental principles in the Code primarily address mind-set and behaviour. As such, these principles do not fit into a legalistic concept of compliance and enforcement. Only some concepts derived from these fundamental principles, such as independence in appearance as one aspect of objectivity, may be subject to compliance and enforcement measures. Without losing sight of the</p>

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			<p>importance of enforceability, the main concern of the Code should remain to address the mind-set and behaviour instead of promoting mere compliance with a set of provisions.</p> <p><b>Building block approach</b></p> <p>We believe that it would be useful to distinguish between provisions applicable to PIEs and non-PIEs in the proposed Parts B and C of the Code. This distinction could help make the provisions of the Code more understandable to SMPs. Despite the efforts made, we think there is still room for improvement to make clear to SMPs what provisions of the Code are applicable to them or not.</p> <p>We favour a scalable ‘building block’ approach – a core block for all professional accountants and perhaps other professionals employed in accounting firms and complementing blocks dealing with specificities. This approach would also help reduce the length of the Code.</p> <p><b>Link to ISQC and ISAs</b></p> <p>Regarding the allocation of responsibilities between firms and individuals, we welcome the approach of maintaining the existing link between the Code, ISQC 1 and ISAs and are satisfied with the approach taken by IESBA in deferring further consideration on this matter until the outcome of the IAASB’s project on ISQC 1.</p> <p>This matter should be kept in ISQC 1 and, although firms and professional accountants each have responsibilities to comply with independence requirements, the Code should address them without prescribing the specific responsibility of individuals.</p> <p><b>Network Firms</b></p> <p>Regarding the reference to firms from network firms, the proposed restructured Code introduces a paradigm shift as it amends the previous general rule by clearly distinguishing between the two concepts and therefore thorough analysis is needed in order to evaluate the appropriateness of such a distinction on a case-by-case basis. We refer to our detailed comments in the appendix for this matter.</p> <p><b>The Magnitude of the Code</b></p> <p>We are concerned that the resulting clarified Code could be a very large one. There seems to be much duplication along the way as if it was an ambition that a “new reader” should be able to start a reading anywhere in the Code. There are many repetitions and redundancies, and they should be avoided. To serve a “lean” purpose, cross references and the glossary could be of more use.</p>

#	Source	Stakeholder Category	Detailed Comment
			<p>Other professionals in accounting firms</p> <p>Furthermore, the absence of addressing issues of other professionals, e.g. tax advisors and management consultants, employed in accounting firms is a major weakness. It seems to us a great paradox to dedicate so much attention to professional accountants in business, and almost no attention to other employees in accounting firms. The latter are no doubt of greater importance and a potential far greater threat to the ethical status of the profession in the eyes of the well-informed third party, e.g. the many regulators worldwide.</p> <p>Reach out Activities – Addressing the Declining Status of the Code</p> <p>As for the adoption of the Code, we strongly suggest reach out activities. The status of the Code has dramatically declined in the EU: In the EU 2006 Directive on statutory audits, the preamble pointed to the Code as a likely source of future ethical standards in the EU. Now, the Code seems to have lost its status altogether, at least in the eyes of the EU-Commission.</p> <p>We would prefer the Code to regain its former strength as a common ground internationally. This would imply greater certainty for businesses, regulators and audit firms when making decisions involving ethical issues. We would be happy to see things reversed; but to do this, consensus between the major regulators and IESBA is a prerequisite.</p> <p>Implementation and Translation</p> <p>Finally, we would like to stress the need to allow adequate time for a due process to translate and implement the new restructured Code. In our opinion, this process calls for at least one year. Therefore, an effective date before 1.January 2018 would seem inappropriate.</p>
19.	GAO	Public Sector Organizations	N/A
20.	GTI*	Accounting Firms	<p>GTIL supports the Board’s work on improving the structure of the Code and believes the restructuring will help enhance the clarity and usability of the Code. We also believe the Board’s proposals will enhance compliance with the fundamental principles and the Code and establish a clearer delineation between threats and safeguard, allowing Professional Accountants to better correlate the relationship between the two, enabling stronger, more effective safeguards to be put in place.</p>

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			<p>However, we note that the threats listed in Section 300.2 A1 and the safeguards listed in Section 300.2 A9 almost exclusively address objectivity and independence related threats (self-interest and self-review). There does not appear to be clear threats and safeguards guidance and examples that address threats to the fundamental principles of integrity, professional competence and due care, and professional behavior. In order to strengthen the Code, we would recommend the Board consider adding examples of threats and safeguards to the Code that address the fundamental principles of integrity, professional competence and due care, and professional behavior.</p>
21.	HKICPA	Member Bodies and Other Professional Organizations	<p>We support the IESBA's proposals for restructuring the Code of Ethics for Professional Accountants (the Code), which enhance the understandability and usability of the Code, thereby facilitating its adoption, effective implementation and consistent application.</p> <p>We note that the restructured Code does not explicitly require the consideration of network firms when assessing independence in certain circumstances specified in the Code. We consider that this may create an impression that firms are not required to consider threats to independence that may be created by network firms in those circumstances. We are not sure whether this is consistent with what the IESBA intended to achieve. Our views are fully expressed in the Appendix and we recommend that further refinement or clarification of the restructured Code in this context could be appropriate.</p>
22.	ICAB	Member Bodies and Other Professional Organizations	<p>(a) Small and Medium Practices (SMPs) – we have a good number of SMPs engaged in public practice who are already well aware about the Code and we believe that the revised Code will have no adverse impact for SMPs.</p> <p>However, we believe that a series of training would help understand and implement the Code by the Small and Medium Practices (SMPs). Hence, keeping provision for arrangement of training and regular discussion by the Firms for individuals on general professional values and ethics can be helpful for the professional accountants.</p> <p>(b) Developing Nations – though Bangladesh is a developing country, the Institute of Chartered Accountants of Bangladesh (ICAB) has adopted the Code of Ethics as it is pronounced by the IESBA. The various stakeholders of the Code have always appreciated this initiative and have applied in discharging their respective responsibilities. However at present, we do not foresee any difficulties in applying them in our environment.</p>

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			(c) Translations – ICAB follows a standard curriculum which is in line with that of ICAEW and the medium of education is in English Language. Besides, we always adopt and publish IFAC and Other Pronouncements in English Language. Therefore, we would rather prefer to get the final pronouncement for adoption in Bangladesh in English language.
23.	ICAEW	Member Bodies and Other Professional Organizations	<ol style="list-style-type: none"> <li>1. We welcome the new structure and distinction between requirements and application material, as well as the prominent positioning of principles over rules and the threats and safeguards approach. However we are keen to ensure that this approach is fully reflected throughout the code and that the guidance continues to evolve in the spirit of helping users apply the principles rather than facilitating regulatory compliance.</li> <li>2. The new title appears indicative of an unsatisfactory compromise. Without evidence to suggest that this is a problem in need of fixing we suggest keeping the original title as it better represents what the document is and should be.</li> <li>3. We support the changes around use of language and organisation of sections, as well as the facilitation of an electronic version.</li> <li>4. We query the removal of useful practical guidance such as the ethical decision making framework and the condensation of some of the more useful threats and safeguards guidance.</li> <li>5. We do not agree with the proposed explanation of the interaction between independence and objectivity.</li> </ol>
24.	ICAG	Member Bodies and Other Professional Organizations	<p>We are very impressed with the proposed improvement in the code. The key areas of our interest include the following:</p> <ol style="list-style-type: none"> <li>1. The Guide to the code enables the reader get an “overall view” of the code. This makes reading friendlier and more efficient.</li> <li>2. The clear identification of requirements from application materials again is a perfect step. It makes it easy for professionals to sift out what is required and explanatory notes.</li> <li>3. Our only suggestion is that where references are made to other sections, they could be linked via a hyper link or another means such that by the click on that reference, you are taken to the reference material.</li> </ol>

#	Source	Stakeholder Category	Detailed Comment
25.	ICAS	Member Bodies and Other Professional Organizations	<p><i>Context of Comments</i></p> <p>We note that the objectives of the restructuring are to improve the understandability and usability of the Code by restructuring it without changing its meaning, except in limited circumstances where the IESBA considers this necessary, and we have taken these objectives into consideration when preparing our response. We have also sought to distinguish between comments on the application of the structure and drafting conventions, and comments on any changes in meaning.</p> <p><i>Caveat</i></p> <p>We appreciate that this is a difficult and time consuming process for IESBA. We would, however, highlight that it is difficult to fully assess the extent of the proposed changes when these are published in different phases, although we do understand and accept why this approach was adopted. We therefore reserve the right to make further comments on matters addressed in this phase of the consultation process at a later stage.</p> <p><b>Key Points</b></p> <p>We welcome that IESBA has conducted extensive research and outreach in connection with this project. We believe this to be an essential feature of such an exercise.</p> <p>We welcome IESBA's efforts to help users to better understand the Code by seeking to reduce its complexity of language and construction. We believe that the restructuring has tackled to some degree the biggest barrier faced by SMPs in complying with the Code which is fully understanding the requirements of the Code in the first instance.</p> <p>We do, however, remain concerned about the length of the Code and believe this acts as a disincentive to the user, We would prefer a 'building block' approach that could be easily scalable. This would consist of a core block for all professional accountants accompanied by additional specific content for those involved in work in relation to PIEs. We believe that such an approach could be introduced by means of a proper electronic tool that enables, among other features, the distinction between provisions applicable to Public Interest Entities (PIEs) and non-PIEs in the proposed Parts B and C of the Code.</p> <p><i>Main Features</i></p> <p>With specific reference to the main features of the restructuring:</p>

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			<ul style="list-style-type: none"> <li>• We support increased prominence of the requirement to apply the conceptual framework and comply with the fundamental principles.</li> <li>• We support the requirements being distinguished – and paragraphs containing requirements being specifically identified with an ‘R’.</li> <li>• We support application material generally being positioned next to the relevant requirements – and paragraphs identified with an ‘A’.</li> <li>• We support IESBA’s efforts to increase clarity of responsibility.</li> <li>• We support the move towards increased clarity of language – where possible: using simpler and shorter sentences; simplifying complex grammatical structures; increased use of the active voice; avoiding legalistic and archaic terms. However, we believe there is more to be done in this respect.</li> <li>• We are supportive of reorganising the Code as appropriate, to enhance clarity and usability, positioning the Code to take advantage of forthcoming electronic features.</li> <li>• We are supportive of the organisation of the material into more self-contained sections and subsections: We are supportive of the approach that each section will have its own introduction which broadly describes the context, including the threats that may exist, and references the fundamental principles.</li> <li>• We are supportive of revised numbering to facilitate revisions.</li> <li>• We are ambivalent to reversing the order of extant Parts B8 and C9 to allow the independence provisions to be presented at the end.</li> <li>• We are supportive of the enhanced definitions section and for it to be presented as a glossary, which also includes descriptions of terms used.</li> <li>• We are content with the use of the active voice instead of the passive voice.</li> <li>• We welcome that IESBA has sought to avoid the use of legalistic and archaic terms, nuances, and superfluous adjectives.</li> <li>• We welcome that IESBA is deferring further consideration of the matter of responsibility until the outcome of the IAASB’s consultation on ISQC 1 is known.</li> </ul>

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			<ul style="list-style-type: none"> <li>• We do not comment on enforceability but it would seem a natural progression that if the Code is clearer, then enforcement, all things being equal, would be easier.</li> </ul> <p><i>Title</i></p> <p>We are not supportive of the proposed new title for the Code. If anything it appears to run contrary to the objectives of this initiative and is more likely to confuse than inform the user. If this is the case to a professional body which operates in a jurisdiction in which English is the main language then we have real concerns as to how this title would translate into other languages.</p> <p>We are very much supportive of having separate ethical standards for auditors and welcome IESBA's move in this direction. We do, however, believe that such standards would be better located out with the Code.</p> <p>The current proposal appears to try to mix and match requirements in standards with the content of the Code which we do not believe is possible conceptually.</p> <p><i>Guide to the Code</i></p> <ul style="list-style-type: none"> <li>• We are supportive of the addition of a Guide to the Code. Tools</li> <li>• We welcome that consideration will be given to preparing tools after the Code has been restructured. We believe that the right tools could play a key role in increasing the understandability and usefulness of the Code.</li> <li>• We note and welcome those suggested by IESBA and also believe that case studies or examples on how to use the restructured Code would be welcomed by a number of jurisdictions.</li> </ul> <p><i>Reasonable and informed third party</i></p> <p>We are generally supportive of the proposed revisions to the Code aimed at clarifying the concepts of:</p> <p>(a) “reasonable and informed third party”; and</p> <p>(b) “acceptable level”.</p> <p>We do believe that it should be clarified that the “reasonable and informed third party” concept relates to a hypothetical actual person as opposed to also possibly including a legal persona or body.</p> <p><i>“The concept of a reasonable and informed third party is a test which involves an evaluation by a hypothetical person. Such a person possesses skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant’s judgments and conclusions. This evaluation entails</i></p>

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			<p><i>weighing all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the evaluation is made to determine whether the accountant complies with the fundamental principles.”</i></p> <p><i>“An acceptable level is a level at which a reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles”.</i></p> <p><i>The Public Interest</i></p> <p>In terms of clarity, it would be a good opportunity to clarify what the professional accountant’s responsibilities are in relation to the public interest. Some firms and others interpret the current text as if it is only the profession as a whole which has a specific responsibility to act in the public interest.</p> <p>However, the content of paragraph 300.2 A6 would imply that the responsibility to act in (and not just consider) applies to the individual professional accountant i.e.</p> <p><i>“Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that professional accountants will act in the public interest. “</i></p> <p><i>Safeguards</i></p> <p>Where lists of different safeguards are produced at various places in the Code we believe it would be advisable to highlight that these lists are not exhaustive and may not be appropriate in any given situation.</p>
26.	IDW	Member Bodies and Other Professional Organizations	<p>We continue to support the proposed restructuring of the Code.</p> <p>We agree with the way the IESBA has set about this project as described in paragraphs 5 and 6 of the Explanatory Memorandum. In particular, we consider it essential that changes to wording made in this project do not change the meaning of the Code, and that matters involving potential changes in meaning are identified and noted for further discussion by the IESBA within the Board’s established due process. In this context, we refer to our comments on specific proposed wording changes in the appendix to this letter.</p> <p>We also agree that the proposed structure is an improvement on the extant structure. We nevertheless believe that ease of navigation could be improved further with changes to some subsections, including the use of objectives as well as some additional cross referencing.</p> <p><b>Consistency in Application</b></p>

#	Source	Stakeholder Category	Detailed Comment
			<p>Specifically, we agree with the IESBA that enhancing the understandability and usability of the Code is necessary to facilitate its adoption, effective implementation, consistent application and enforcement.</p> <p>In this context, we continue to have concerns as to the potential for differences in understanding or appreciation of certain terminology used in the Code in different jurisdictions. To the extent that the understanding of a particular term or terms is key to the application of requirements of the Code, (a) definition/(s) is/(are) needed. In this context, we refer to specific comments we have made in the appendix to this letter.</p> <p><b>Application of a Threats and Safeguards Approach</b></p> <p>As paragraph 13 of the Explanatory Memorandum recognizes, the Code’s established threats and safeguards approach is highly significant to an appropriate application of the Code.</p> <p>We believe it would be helpful to place a paragraph in the introduction to provide a brief explanation of how the professional accountant is expected to apply the threats and safeguards approach in following the IESBA Code. Ultimately, linking the threats and safeguards identified within the Code to each of the relevant fundamental principle(s) would also improve readers’ understanding of how this approach is intended to assist professional accountants to comply with the fundamental principles.</p> <p>The ED currently lacks consistency in this regard, with Para 112.2A2 listing examples of safeguards ahead of the concept of a threats-and-safeguards approach having been explained (R120.7). Similarly it would be helpful to identify the threats included in each of the subsections 111-115 as such, instead of them merely being worded as part of a requirement, as currently drafted.</p> <p><b>Objectives to Support Requirements</b></p> <p>In our view the use of objectives would fit in well with the threats and safeguards approach which, although supplemented by specific requirements in part, also requires professional judgment as to whether additional measures are to be taken, when a threat has been reduced to an acceptable level, and how to deal with exceptional circumstances etc. In this context, we are interested to note from the Safeguards Project the Board’s belief that the fundamental principles establish overarching objectives professional accountants are required to meet (Para 9(a)(i) Explanatory Memorandum to ED: Proposed Revisions Pertaining to Safeguards in the Code - Phase 1).</p> <p>In the appendix to this letter, we propose that rather than being worded as requirements, the first paragraph in each of the subsections 111-115 might be rephrased as an objective, and subsequently supplemented</p>

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			<p>by text explaining where the Code has identified threats. Establishing for all professional accountants an overall objective for each fundamental principle would provide a basis for individual accountants to “step back” and consider whether – in adhering to each of the individual requirements relevant to the particular circumstances – they have achieved the objectives, or whether further safeguards are called for, as appropriate.</p>
27.	<b>IOSCO</b>	Regulators and Oversight Authorities	<p>We commend and support the Board's restructure of the Code in a "clarity" format and believe that the Paper provides a significant improvement over the extant Code. The proposed changes will provide greater certainty to practitioners and others in applying the Code, and will facilitate enforceability of the Code.</p> <p>We support the proposed distinction between requirements and application guidance, as well as the clearer language. We also support the inclusion of a general framework and the prominence given to that framework. These changes are important to the enforceability, application and understanding of the Code.</p> <p>In this letter, we comment on the apparently inadvertent changes in the meaning of particular provisions of the Code as the different sections of the Code were rearranged. We have included comments supporting certain aspects of the Paper and identified some instances where we believe the Code could be further enhanced in connection with the restructuring of the Code, by either clarifying or enhancing enforceability of certain sections. We have considered separately the Exposure Draft, <i>Proposed Revisions Pertaining to Safeguards in the Code-Phase 1</i> and will comment on this draft separately.</p> <p>We also await the changes in Phase II of the project and Phase II of the Safeguards project, as well as any changes flowing from the Long Associations project.</p> <p><b>Requirements</b></p> <p>Paragraph 7 gives the impression that the inclusion of the word "shall" in a paragraph is the only criterion for identifying a requirement in the proposed Code. It should be made clear that an accountant must comply with all requirements where "shall" is used or if the paragraph is designated with an "R".</p> <p>In particular, some "R" designated paragraphs use the language "which requires"(e.g. paragraphs RI11.1, RI13.I and R I 14.1). These paragraphs should be reworded to specifically impose those requirements.</p> <p><b>Emphasis on general independence requirement and fundamental principles</b></p>

#	Source	Stakeholder Category	Detailed Comment
			<p>As noted above, we support the prominence given to the proposed requirement to apply the conceptual framework of the Code. We believe the general independence requirement in paragraph R400.9 (supported by the definition in paragraph 400.2) should be given similar prominence.</p> <p>The general independence requirement should be an overriding test, requiring the accountant to resolve a conflict and/or cease to be involved in an audit engagement. Greater prominence to the requirement will assist accountants in placing appropriate focus on the importance of this test.</p> <p>The general requirement addresses situations and circumstances not specifically covered in the Code and assists in applying the specific requirements of the Code. Currently, many accountants appear to focus on specific requirements of the Code and disregard the general requirement to be independent. Further, the general requirement will assist in considering threats and safeguards in specific areas.</p> <p>Compliance with the fundamental principles of integrity, objectivity, etc... in paragraphs RI11.1, R I 12.1, R I 13.I, RI14.1 and R I 15.I should also be given more prominence. While we recognize and support the requirements to comply with the fundamental principles in paragraphs R 120.5, R300.2 and similar provisions, it would also assist practitioners to emphasize in the Code that the general independence test and fundamental principles (including the requirement in R I 12.2 to not undertake an activity if the accountant's professional judgment would be unduly influenced) are overriding requirements that apply irrespective of other specific provisions in the Code.</p> <p><b>Exceptions to the Code requirements</b></p> <p>Paragraphs 10 and 11 suggest that there are instances Where an accountant would not be required to comply with the specific requirements in circumstances where they consider it appropriate not to do so, albeit after consultation with other parties. The Board should consider removing such exemptions as they undermine the specific requirements of the Code, may conflict with the general independence requirement, and may be inconsistent with the comment in paragraph 6 that the Code requires compliance with the fundamental principles of professional ethics.</p> <p>The equivalent of the proposed paragraph I 0 is not located under the common subheading "Exceptional circumstances" in the extant Code. Relocating the paragraph may affect the interpretation of these provisions. In particular, paragraphs 10 and 12 read together imply that the accountant could decide not to apply specific provisions of the Code on the basis that compliance would be disproportionate to the public interest under paragraph 10. At present the equivalent to paragraph I0 in the Code does not appear to</p>

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			<p>allow the accountant to make a decision not to apply any of the specific provisions. Further paragraph 12 would "encourage" rather than require the accountant to document the reasons for such a decision.</p> <p>Further, the meaning of paragraph 11 appears to have been changed. Extant paragraphs 100.19, 100.20, 100.21, 100.23 and 100.24 relate to "Ethical Conflict Resolution" and internal resolution processes. This is evident from the wording of those paragraphs and the context provided in extant paragraphs 100.17 and 100.18 preceding them under the heading "Conflicts of interest". In contrast paragraph 11 relates to circumstances where compliance with one principle of the Code is in conflict with compliance with another, increasing the discretion in applying the Code. If paragraph 11 is to be retained, it should only apply in the context of conflicts of interest.</p> <p>If the current proposals are retained, section 12 should require rather than encourage documentation of the decisions made. Similarly, paragraphs 10 and 11 should require consultation rather than encourage consultation. The use of the softer wording "encourage" would not appear to be consistent with the approach of the current Board to strengthen the Code, provide greater clarity and avoid perceptions of undue influence from the profession.</p> <p>Subject to addressing these matters, paragraphs 10 to 12 should become integral parts of the Code itself rather than being included in the "Guide to the Code". Presenting the provisions as introduction and guidance could cause some professionals to overlook the importance of these provisions and focus only on the other provisions of the Code.</p> <p>Use of "it is generally necessary"</p> <p>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.</p> <p>Treatment of Code as a Standard</p> <p>We support the inclusion of "Standards" in the title of the proposed Code to emphasize the importance and status of the requirements of the Code.</p> <p>Scope of parts of the Code</p> <p>The independence provisions of the extant Code apply separately to:</p> <p>(i) financial statement audits (section 290); and</p>

#	Source	Stakeholder Category	Detailed Comment
			<p>(ii) audits or reviews of information other than historical financial information (section 291).                      It is proposed to restructure the Code to apply separately to:</p> <p>(i) audit and review engagements (section C I ); and                      (ii) other assurance engagements (section C2).</p> <p>Section C2 has not yet been included in the proposed Code. The purpose of the section is unclear given that the ISAs do not envisage assurance engagements other than audits and reviews.                      We would support combining the extant sections 290 and 291 into a single section.</p> <p>"Reasonable and informed third person" test</p> <p>We support the use and definition of the concept of a "reasonable and informed third person" (refer to paragraphs R I 20.4 and 120.4 A I and the glossary). Nonetheless, please consider suggestions for improvements to the definition as part of the submissions on the IESBA's Exposure Draft, <i>Proposed Revisions Pertaining to Safeguards in the Code-Phase 1</i>.</p> <p>Identifying threats</p> <p>Extant paragraph 100.6 explains that the Code includes a conceptual framework to address the broad range of circumstances that can create threats to compliance with fundamental principles. In contrast, paragraphs R120.5 A I and A4 appear to suggest that the broad range of circumstances that can create threats to compliance with fundamental principles may affect the likelihood of an accountant identifying threats. We are concerned that the proposed paragraphs might be used inappropriately to justify not identifying a particular threat.</p> <p>The proposed Code should be clear that the accountant has an obligation to identify all threats to compliance with the fundamental principles, regardless of how many threats exist or other circumstances. The threats identified are then evaluated, addressed and a determination made as to whether they have been reduced to an acceptable level.</p> <p>Sufficiency of safeguards, etc...</p> <p>Certain paragraphs of the proposed Code require an assessment as to whether safeguards are necessary to address a threat (e.g., refer paragraph R510.1O(b)(ii)). These provisions should also require the auditor to determine whether the safeguards are sufficient to address the threats and, if not; require action such as ceasing to be the auditor before issuing an opinion.</p>

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			<p>Similarly, paragraph R310.11 requires an accountant to judge whether specific disclosure and explicit consent is necessary in relation to a conflict of interest but should also require the accountant to determine whether this would be sufficient or other actions are required.</p> <p>"Trivial and inconsequential" criterion</p> <p>A number of paragraphs of the proposed Code use the "trivial or inconsequential" criterion. For example, paragraph 340.3 A 1 applies the concept to the "existence" and "significance" of a threat relating to gifts and hospitality. The concept is highly subjective and the Board should consider providing a definition or guidance on its application.</p> <p>"Materiality" and "significance"</p> <p>Certain provisions of the proposed Code would apply subject to "materiality" and "significance" (e.g., refer to paragraph 520.2 in connection with business relationships)</p> <p>Guidance should be provided on the application of the "materiality" and "significance" criteria, which might include:</p> <ul style="list-style-type: none"> <li>(a) a reasonable third party criterion ;</li> <li>(b) given that the proposed Code refers to the "combined net worth" of an individual as a measure of "materiality" and "significance", the need to consider qualitative factors such as the nature of the business relationship between the individual and the audit firm, and whether such relationship/service affects the financial statements;</li> <li>(c) the need to consider the "perception" or "appearance" of independence ; and</li> <li>(d) the need to apply the test in the context of a network, individual firm and an individual engagement.</li> </ul> <p>Documentation</p> <p>Paragraph 402.1 would require documentation evidencing "judgments when forming conclusions regarding compliance with independence requirements". The documentation should be required to be of a standard that would enable another professional to understand the judgments made and the reasons. Guidance should be provided on the extent of documentation required in relation to matters such as the identification of risks, and evaluation of threats that were determined to be acceptable without safeguards.</p>

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			<p>This guidance in paragraph 402.2 AI says that a lack of documentation does not determine whether a firm has considered a particular matter or whether it is independent. This paragraph is unnecessary and can undermine the documentation requirements and their enforceability. The paragraph should be removed.</p> <p><b>Relationships and services</b></p> <p>It is unclear why paragraph R400.13(a) is limited to financial or business relationships that exist during the period covered by financial statements prior to accepting the audit engagement and not to such relationships after accepting the audit engagement. Similarly, it is unclear why paragraph R400.13(b) applies to services prior to becoming auditor of an entity.</p> <p>If subsequent relationships and services are considered to be covered by other parts of the proposed Code, this should be made clear and the provision should only apply to new audit clients. It should be stated that all prohibited relationships/services must be terminated prior to accepting the engagement and that other parts of the proposed Code address ongoing/continuing prohibited services to the audit client, if any.</p> <p><b>Breaches</b></p> <p>Depending upon the significance of a breach of an independence requirement of the Code, paragraph R404.2(e) would require ending an audit engagement or taking other appropriate action. It should be made clear that other action is not appropriate where another requirement of the Code requires the engagement to be ended.</p> <p><b>Definitions</b></p> <p>We suggest the following enhancements to definitions in the glossary:</p> <ul style="list-style-type: none"> <li>(a) <i>Engagement period</i> - the period should not be limited to the date that the audit report is issued as the auditor has further responsibilities, such as addressing the effect on the opinion of matters that come to the auditor's attention after conclusion of the audit; and</li> <li>(b) <i>Financial interest</i> - the definition may need to be broadened to cover interests such as financial interests in a trust.</li> </ul> <p><b>Other matters</b></p> <p>Other specific matters that the Board should consider are:</p>

#	Source	Stakeholder Category	Detailed Comment
			<p>(i) The following paragraphs of the "Introduction" at the start of individual parts of the Code are in the nature of application guidance and should be relocated to the application content, including:</p> <ul style="list-style-type: none"> <li>• The guidance on "materiality" and "significance" in paragraphs 510.3 and 520.2; and the guidance on what constitutes a network firm in paragraph 401 .1</li> </ul> <p>(ii) In paragraph R I 00.4(b) there should be no optionality on whether an accountant has to report a breach or not;</p> <p>(iii) Including the following content from extant paragraph 100.12 in the proposed Code:  <i>"When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a Member's compliance with the fundamental principles.";</i></p> <p>(iv) In the first line of paragraph 300.1, consider replacing "considerations" with "requirements and guidance", consistent with the restructuring of the Code;</p> <p>(v) In paragraphs 310.3 and 310.4, whether threats and conflicts "might" exist in the cases outlined or should be described as existing;</p> <p>(vi) Some requirements seem to point to the conceptual framework rather than containing specific requirements or actions for the accountant to take (for example, see R330.3; R340.3). These paragraphs should contain such requirements;</p> <p>(vii) Paragraph R340.3 says "A professional accountant shall apply the conceptual framework set out in Section 120 to the acceptance of offers of gifts and hospitality." This requirement does not provide much accountability and may be difficult to enforce. Perhaps this requirement could say, "A professional accountant shall not accept gifts or hospitality that a reasonable and informed third-party, weighing all the facts and circumstances, would not consider trivial and inconsequential or would conclude that the offer is not made in the normal course of business without the intent to influence decision making or to obtain information". Even though current paragraph 260.2 does not use the verb "shall" it provides guidance about the nature of circumstances that would or would not be problematic;</p> <p>(viii) In paragraph 400.4, removing the reference to 300.2 AI O, which does not include safeguards as suggested;</p>

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			<p>(ix) Relocating the material in paragraphs 300.2 A 1, A3, A4, A5 and A6 to other more directly related parts of the proposed Code</p> <p>(x) The requirement in paragraph R401.2 for a network firm to be independent of audit clients of other firms in the network should apply even where there is no specific requirement in C 1;</p> <p>(xi) Some application material is definite and could be considered to be requirements. For example, 401.3 through 401.9; 410.7 A I , 521.4 A I ;</p> <p>(xii) ) In paragraph 51 I .4 A2 and other provisions , review by another network firm is not really a safeguard because of the mutuality of interest between firms in the same network; and</p> <p>(xiii) ) In paragraphs R52 I .5 and R521 .6, it is inappropriate in addressing "Other Close Relationships of Audit Team Member" to have a requirement that only requires "consulting in accordance with firm policies and procedures".</p>
28.	IPA	Member Bodies and Other Professional Organizations	<p>In general, we support the changes to the structure of the Code and believe the changes will increase clarity and understanding of the fundamental principles and complying with the conceptual framework.</p> <p>We do however, see some limitations to the enforceability of the Code, particularly amongst individual professional accountants and professional accountants in business. Further, independence requirements which are both enforced and scrutinised by the public, may continue to overshadow other important aspects of the Code (which we see as an unintended consequence).</p>
29.	IRBA	Regulators and Oversight Authorities	<p>1.1. The IRBA supports the initiatives of the IESBA to improve understandability, enforceability and usability of the IEBSA Code. This includes a Code that is effectively implemented and consistently applied.</p> <p>1.2. As a regulator of registered auditors, we have a strong interest in the enforceability of the Code. Likewise, we support initiatives that create an enabling environment for registered auditors to apply the Code. We believe that the Code is imperative in protecting the public interest, thus support such initiatives that promote ease in understanding the Code. Furthermore, the lack of enforceability of the Code, leads to sluggishness in the adoption of the Code in new jurisdictions.</p> <p>1.3. While this exposure draft on the Code has been drafted in the context of professional accountants, our responses are provided in the context of registered auditors who perform audits, reviews and provide other assurance services.</p>

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			<p>1.4. We believe that this exposure draft is an improvement on the extant Code. However, we believe that additional work outside the scope of this Structure Project may be needed to achieve the full objectives of this exposure draft. To facilitate understandability and usability of the Code, more specific requirements are needed in the different sections of the Code and clarity to certain statements.</p> <p>1.5. Our comment letter also includes some suggestions in Appendix A that may fall outside of the scope of this exposure draft, but which the IESBA may consider when deciding on future projects.</p> <p>1.6. In light of the multiple references to the conceptual framework in the restructured Code, especially in the requirements, we stress that sufficient clarity is required in the Safeguards Project about the conceptual framework to make the Code understandable and enforceable.</p> <p>1.7. The IESBA may have to consider including a public sector perspective in the application material in the scope of the Code. This would be similar to the application material in the various International Auditing and Assurance Standards Board’s (IAASB) International Standards on Auditing (ISAs) relating to “Considerations Specific to Public Sector Entities”.</p> <p>1.8. The IRBA comment letter on the IESBA Safeguards project (as attached) should be considered, especially relating to comments on the conceptual framework in this comment letter.</p>
30.	ISCA	Member Bodies and Other Professional Organizations	<p>Generally, we agree with all the suggestions in the ED and do not have significant comments or additional insights, except for the following specific questions:</p>
31.	JICPA	Member Bodies and Other Professional Organizations	<p>(a) We do not have any specific comments.</p> <p>(b) Not applicable.</p> <p>(c) English is not the official language in Japan, thus, it is inevitable to translate the Code from English to Japanese in an understandable manner. For this reason, we pay close attention to the wording used in the Code in respect of whether it is translatable and comprehensible when translated. We therefore request the IESBA to avoid lengthy sentences and to use concise and easily understandable wording.</p> <p>Please also refer to the comments in our response to Question 6 above.</p>

#	Source	Stakeholder Category	Detailed Comment
32.	KICPA	Member Bodies and Other Professional Organizations	<p>KICPA is supportive of the purpose of the proposed ED on Structure of the Code, not to mention the direction the proposed ED takes in general, as suggested by IESBA.</p> <p>We believe that distinguishing requirements from application material lie at the heart of this proposed ED. We support this ED placing application material as close as possible to the relevant requirements, but placing differing numbering of paragraphs to distinguish the two, unlike the CP, issued in November, 2014, which completely separated the requirements and application material. Rather, we think the separation of requirements from application material, as suggested in this proposed ED, could ease some concerns over Code's understandability.</p> <p>In addition, the organization of the material into more self-contained sections and subsections contributes to increasing the navigability and usability of the Code, which would eventually end up with being helpful to the development of the electronic Code later on. As compared to the existing Code whose paragraphs often contain multiple contents and meaning in one paragraph, the proposed ED divides each paragraph involving various contents into several ones, thereby contributing to increasing the clarity and understandability of the Code.</p>
33.	KPMG*	Accounting Firms	<p>We continue to be generally supportive of the project as we do believe that a restructured Code can result in enhanced usability and enforceability, which we believe to be important to the continued relevance of the Code globally and, further, worldwide adoption.</p>
34.	MIA	Member Bodies and Other Professional Organizations	<p>In addition to the comments above, we suggest not to duplicate the definition in the body of the Code and Glossary. Instead, making reference to the Glossary in the body of the Code is sufficient.</p>
35.	NASBA	Public Sector Organizations	N/A
36.	NBA	Member Bodies and Other Professional Organizations	<p>In our response to the IESBA Consultation Paper "Improving the Structure of the Code of Ethics for Professional Accountants" we informed you that the NBA has new ethical and independence standards as of 1 January 2014. We introduced a few changes compared to the structure of the Code in order to further clarify the Code, while at the same time maintaining a close relationship to the Code. It resulted in understandable, to the point and enforceable principle based standards. It turns out that our new ethical</p>

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			<p>standards are well accepted and are supported by both the account-ancy profession as well as the various stakeholders (including the legislator and regulator) outside the profession. From that perspective we would like to inform you about the amendments we made.</p> <p>We implemented one general set of ethical standards and one set of independence standards that are applicable to all professional accountants (no distinction between professional accountants in public practice and professional accountants in business). We took in consideration that both kinds of professional accountants are subject to the same fundamental principles and could be facing similar problems basically. However where we identified serious differences deriving from the work environment a professional accountant operates in, we converted a general rule into a standard that is tailored to that specific work environment. This is particularly the case in our independence standards (see below).</p> <p>We regulated primarily the extant Part A of the Code. We are of the opinion that the requirements in extant Part B (the independence sections excluded) and Part C do not really have the character of (stand-alone) requirements, with a few exceptions, but are practical examples of the application of the conceptual framework in order to apply with the fundamental principles in different situations.</p> <p>Not only professional accountants in public practice but all accountants fall within the scope of our independence standards in case of assurance services. We believe it strengthens the position of internal and governmental auditors (professional accountants in business in the Code), when they are subject to independence standards as well. It strengthens their position in relation to the external auditor and, in his function as third line of defence, in relation to those charged with governance of the employing organization. In the Netherlands this has a positive effect on the quality of assurance engagements and the internal governance of the employing organization. We recognize that due to the employment relationship with the employing organization, internal and governmental auditors will never be totally independent.</p> <p>We further have only one set of independence standards applicable to all assurance engagements (no distinction between audit and review of historical information [extant Section 290] and other assurance engagements [extant Section 291). We reduced the independence standards to those in Section 290 only (changed scope to all assurance engagements). We chose to do so, because we believe that the degree of independence would not depend on the subject matter, while the degree of confidence of the intended users about the outcome of the evaluation or measurement of the subject matter against criteria will be the same. Furthermore we took the increasing importance of integrated reporting in consideration. In our</p>

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			<p>opinion we can't explain to third parties why a different set of independence rules would apply to the non-financial part of assurance on integrated reports.</p> <p>Our independence standards have a principle based character. However we introduced some clear borders on specific topics at the same time. In some areas, in our role of standard setter, we applied the conceptual framework, including the third party test. It resulted in a few requirements ("this is how a professional accountant should act in this specific situation in order to be independent"), based on non-rebuttable presumptions ("the public will always identify this specific relationship as a threat to independence"). We experienced these clear borders help the profession when applying principle based (independence) standards. We recognize there is a cultural aspect to it.</p>
37.	NFCPAA ROC	Member Bodies and Other Professional Organizations	<p>We acknowledge the efforts that IESBA is making and are supportive of the aim of the proposals to enhance the understandability and usability of the code by restructuring it.</p>
38.	NZAuASB	National Standard Setters	<p>As previously commented to IESBA, the NZAuASB is very supportive of the project to improve the structure of the Code. The NZAuASB considers that the primary purpose of the Code of Ethics is to guide professional accountants to work through ethical conflicts as they emerge. The NZAuASB is strongly in favour of enhancing the existing framework that emphasises not only the importance of the conceptual framework but which is strongly focussed on compliance with the fundamental principles. The NZAuASB considers that a robust framework will encourage compliance with the spirit of the Code, whereas a rules based approach may drive a compliance focus, where professional accountants make use of a "tick the box" approach to compliance with the requirements. The NZAuASB acknowledges that the IESBA is mindful of the importance of a principles-based approach, with principles that can apply in all circumstances, and strongly encourages the IESBA to retain that approach</p> <p>The NZAuASB considers that the length and complexity of the existing Code is a barrier to adoption and implementation and is therefore very supportive of all efforts to simplify the drafting conventions and shorten the Code. Once simplified drafting conventions are established, the NZAuASB then encourages IESBA to ensure that the Code is consistently restructured in line with those revised drafting conventions. The NZAuASB encourages the IESBA to continue to seek ways to further simplify the Code, reduce</p>

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			<p>repetition and shorten the Code with a focus on the fundamental principles in line with revised drafting conventions.</p> <p>One key area where the NZAuASB considers that the proposals could be improved is in consistent use of terminology. Areas that the NZAuASB has identified where the use of terminology could be improved are highlighted in response to the specific questions posed in the exposure draft in the attachment. The NZAuASB considers that consistent use of terminology is key to avoiding unintentional breaches of the Code. Professional accountants are unlikely to read the Code from cover to cover, rather, in practice, a specific section or paragraph will be referred to that most closely deals with the ethical dilemma the professional accountant is facing. If that paragraph is inconsistent in the terminology that it uses, it may lead to unintended consequences. Consistency in use of terms, using shorter sentences and having a clear structure are all important to improving the usability of the Code.</p>
39.	OECFM	Member Bodies and Other Professional Organizations	<p>(a) For SMPs in our country, there will be difficulties to practice all changes because the profession is in full development. The new fellow members have difficulties to follow all principles. We suggest that the “Ordre des experts-comptables et financiers” can help to resolve any problem.</p> <p>(b) No comment</p> <p>(c) In French and Malagasy language, the word "materials" refers to physical instruments while this is not the case in the term “Application materials”. This could also be the case with other languages. "Materials" could be perhaps replaced by a word that does not require interpretation (eg " Application instruments") to facilitate translation.</p>
40.	PAAB	Regulators and Oversight Authorities	<p>Para R100.4 - <i>"Take whatever actions might be available..."</i></p> <p>There is a grammatical error on the identified statement. We propose it to be rephrased to: "Take whatever actions <u>that</u> might be available..."</p>
41.	PKF	Accounting Firms	<p>We welcome the opportunity to comment on the IESBA Exposure Draft “Improving the structure of the Code of Ethics for Professional Accountants – Phase 1” (“the ED”). We are supportive of the IESBA’s continued efforts to clarify and improve its Code of Ethics for Professional Accountants (“the Code”).</p> <p>We believe that the proposed changes significantly clarifies and enhances the usability of the Code, although some details around the numbering of paragraphs, the convention used to denote requirements</p>

#	Source	Stakeholder Category	Detailed Comment
			<p>and other materials, and some content of the proposed Guide to the Code could be improved with some limited changes.</p> <p>These and additional comments are further discussed in response to the IESBA’s specific questions in the appendix attached to this letter.</p> <p><b>Small and Medium Practices (SMPs) and Developing Nations</b></p> <p>We believe that the proposals in the ED, subject to our comments above, will significantly aid small and medium practices (SMPs) and developing nations in understanding and applying the Code. Of particular importance are our suggestions for further supporting materials such as illustrative examples, case studies and frequently asked questions.</p> <p><b>Translations</b></p> <p>Clarity, consistency of terms and logical structuring significantly enhance the ability for accurate translation, and subject to our comments above, we support the changes in the ED and believe these will assist in this regard.</p>
42.	PWC*	Accounting Firms	<p>We support the Board’s overall objectives and believe that, in large measure, the proposed changes to the Code will provide enhanced clarity to assist professional accountants to understand and apply the Code of Ethics (the “Code”). However, we do have a number of comments in response to the specific questions asked by the Board, which are set out in Appendix 1, together with some more detailed commentary provided in Appendix 2.</p>
43.	RSM UK*	Accounting Firms	N/A
44.	SAICA	Member Bodies and Other Professional Organizations	<p>(a) The Code of Ethics remains difficult and expensive for the professional accountant in micro firms such as one or two partner firms. In our view the provision of professional services in terms of auditing will need to work together to overcome any competitive disadvantage introduced by the code. In our opinion, the restructuring of the Code brings about a positive impact for SMPs as it provides further guidance to professional accountants in respect of the interpretation and application of the fundamental principles in the Code.</p> <p>(b) No comment</p>

#	Source	Stakeholder Category	Detailed Comment
			(c) The definition on page 89 refer to “Reasonable and Informed Third Party Test, SAICA questions whether the term “hypothetical” is translatable and if it will be well understood.
45.	SCM	Regulators and Oversight Authorities	<p>The Audit Oversight Board, Malaysia (AOB) supports the efforts of the International Ethics Standards Board for Accountants (IESBA) to enhance the understandability and usability of the <i>Code of Ethics for Professional Accountants</i> (the Code) in order to facilitate its adoption, effective implementation, consistent application and enforcement globally in the public interest.</p> <p>In this regard, the AOB has no objection to the proposed changes outlined in the exposure draft on improving the structure of the Code.</p>
46.	SMPC	Member Bodies and Other Professional Organizations	<p>We continue to support the approach taken by the IESBA and the general direction of the project to improve the structure, understandability and usability of the Code of Ethics for Professional Accountants (the Code). We welcome the reference in the ED to the results from the <a href="#">SMP Quick Poll</a>, which indicated that the biggest barrier faced by SMPs in fully adhering to the Code was due to understanding its requirements. In previous comment letters we have repeatedly strongly encouraged the IESBA to consider using less conventional ways of eliciting feedback and comments on its restructuring proposals so as to obtain input from the largest possible number of SMPs. Due to their often limited resources, SMPs are often not able to easily respond and engage with the standard setting consultation process. This demands actively seeking out their views rather than waiting for them to respond to often complex and long exposure drafts and consultation papers.</p> <p>We note, unfortunately, from the April 2015 IESBA Board papers (Agenda Item 5-A) that the Consultation Paper did not elicit responses from SMPs in the ‘firm’ category and only two responses from ‘Individuals and Others’. Despite this, SMPs are one of the main user groups of the Code and therefore it is important their opinions are obtained and their input considered by the Board.</p> <p>Following the Consultation Paper we prepared a discussion on the Global Knowledge Gateway ‘<a href="#">An SMP Perspective on Improving the Structure of the IESBA Code of Ethics for Professional Accountants</a>’, which was also promoted on various social media channels. We look forward to seeing how the IESBA has increased the number of SMP responses and engaged with this important constituency.</p>

#	Source	Stakeholder Category	Detailed Comment
			(a) We believe that the needs of the SMP community should be at the forefront as IESBA takes this project forward in Phase 2. The IESBA needs to engage more with this important constituency as it prepares the next Exposure Draft in order to ensure their views are taken into consideration.
47.	SRA	Accounting Firms	We understand that it is considered to make separate provisions in the Code for professional accountants serving PIE's and non-PIE's. We do not support such a division in the provisions in the Code. In our view the Code should be the same for both categories of professional accountants.
48.	UK FRC	Regulators and Oversight Authorities	<p>In January 2015 we responded to IESBA's 2014 Consultation Paper on the proposed restructure, which preceded the current Exposure draft, and expressed our support for the project as a whole. We view this project as an opportunity to address concerns we have raised in the past concerning the structure and language of the Code. Our primary concern in respect of the 2014 Consultation Paper was that the restructuring should not narrowly follow the clarity model adopted by the International Auditing and Assurance Standards Board (IAASB) for auditing standards, but should also fully embrace the principles-based approach that underpins the ISAs. This is because we believe that failing to do so would risk encouraging a 'rules based mindset', with an undue focus on requirements and process when approaching ethical issues, rather than requiring auditors to meet ethical outcomes that are consistent with user and public expectations of them in that role.</p> <p>We strongly believe that a principles based approach, which clearly establishes overarching ethical principles and supporting ethical provisions, supplemented by clearly linked requirements addressing particular circumstances, will result in better ethical and behavioural outcomes. This has been one of the primary drivers behind our current revision to the FRC's Ethical Standard for auditors, which brings together the results of the FRC's own review of ethical matters and implements the requirements of the EU Audit Directive and Regulation.</p> <p>The Board's decision to consult on proposed changes to the Code as a series of linked consultations, in which the contents of one are fundamental to considering the issues contained in the others makes it difficult to provide a response at anything other than a principles level at this stage. Although we have provided responses to each of the consultation questions, the detailed parts of each response are subject to a caveat, namely that they should then be considered holistically in the context of the Code as a whole and the outcomes it exists to support. When that is possible, we may have additional comments. The consultation includes both major questions of principle, and some detailed questions of a more</p>

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			<p>administrative nature. We have found it helpful, in revising our Ethical Standard, to focus on agreeing on the major points of principle first, as the answers to the more detailed questions may emerge from the conclusions drawn at the principles level.</p> <p>The current Exposure Draft goes some way towards addressing our concerns raised in our response to the 2014 consultation, but we believe more should be done to clarify and emphasise the centrality of the fundamental principles in the conceptual framework, and establish an explicit linkage between the framework and the detailed requirements so that it is clearer how the requirements assist meeting the ethical outcomes. The draft currently omits the stages we found to be necessary – namely a need to clarify through supporting ethical provisions the outcomes that are necessary to act in accordance with the fundamental principles. In that respect, the Guide to the Code has a crucial role in providing users with a route map through the Code, and should contain more explanation of the purpose of the fundamental principles, as well as of the Code itself. This should emphasise the overall objective of achieving better ethical outcomes rather than simply following specific rules or establishing process.</p> <p>We note that the Board has a separate project underway in respect of safeguards – to which we have already responded separately – and that those sections of the Exposure Draft in this response that relate to safeguards are currently either in draft form or are incomplete. We believe that a rounded view on the changes to the Code can only be given once the revised safeguards have been fully integrated into the text, and our response is provided with that proviso.</p>
49.	VRC	Preparers of Financial Statements	<p>The VRC reviewed the ED 'Improving the Structure of the Code of Ethics for Professional Accountants Phase I'. The VRC supports the ED and has no objections or further comments.</p>
50.	WPK	Member Bodies and Other Professional Organizations	<p><i>General agreement to the Restructuring of the Code</i></p> <p>We welcome IESBA's intention to restructure the IESBA Code of Ethics in order to improve its understandability and usability. Overall we think that the proposed adjustments (especially the separation of requirements from the application material) are reasonable and useful from the users' perspective. From our understanding, the ED seems to make the right steps to foster the manageability of the Code.</p> <p><i>Different Phases of the Project</i></p>

#	Source	Stakeholder Category	Detailed Comment
			<p>With regard to IESBA's limited resources, we understand the approach of separating such an enormous restructuring project into different phases. However this separation into two phases, combined with the also two-phased safeguards and long association projects makes it difficult to assess the overall effect of the different EDs on the IESBA Code of Ethics. Accordingly an over- all assessment will only be possible after the accomplishment of all mentioned project phases.</p> <p><i>Change in meaning</i></p> <p>We ask the IESBA to make sure that no changes in the meaning of requirements due to the re- structuring of the Code take place. Please see our comments to question No. 3. Unintended changes in meaning should be avoided. Intended changes should be clearly communicated.</p> <p><i>Future cost-benefit-analysis</i></p> <p>The comprehensive restructuring of the Code will result in extensive and costly follow-up work for the audit firms as well as for member organisations, regulators and others. Examples refer to the update and the reworking of translations, comparisons, guidance and training material.</p> <p>We therefore encourage the Board to perform cost-benefit analysis that such extensive future projects may have: the benefits of any proposed changes to the Code need to outweigh the likely costs for affected parties, including the translation and adoption in national or firm-wide instructions by national legislation, local regulators, IFAC member bodies, and firms.</p> <p><i>Avoidance of too much emphasis on enforceability</i></p> <p>We will very much welcome, if IESBA does not put too much emphasis on the (alleged) enforce- ability of the requirements of the Code. With a view to the remarks in note 3 (feedback received from some regulators in terms of enforceability) and question 1g) of the ED one might get the impression that enforceability of all requirements in the Code has become one of the core criteria for the restructuring. Notwithstanding the need for sanctioning violations of the Code (e.g. in disciplinary or legal proceedings) we question whether regulatory enforcement is an appropriate criterion with respect to the quality and usability of the Code in its entirety. In our view, facilitation of such enforcement can, amongst many others, only be one criterion in relation to independence standards for audit services.</p> <p>From our understanding enforceability derives in large parts from the clarity, understandability, adequacy and practicability of a requirement. Accordingly enforceability should only be one guiding aspect – besides others – on which the restructuring of the Code is based. Additionally some of the fundamental principles</p>

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			<p>of the Code are by themselves not enforceable, since they address a mind-set and require the professional accountant to apply a consequent behaviour and to exercise personal judgment.</p> <p>In particular, we refer to the relationship between the fundamental principle of objectivity and the independence standards derived from this principle: whilst objectivity is a wide, and primarily behavioural, concept that applies to all professional activities of a public accountant and is not directly enforceable we consider independence (in particular independence in appearance) as a proxy to demonstrate objectivity with respect to assurance services only, and thus being subject to [enforceable] standards.</p>