



American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

February 4, 2015

International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Re: Consultation Paper, *Improving the Structure of the Code of Ethics for Professional Accountants*

Dear Members of the International Ethics Standards Board for Accountants:

The American Institute of Certified Public Accountants' (AICPA) Professional Ethics Executive Committee (PEEC) is pleased to submit this comment letter to the International Ethics Standards Board for Accountants (IESBA) on its Consultation Paper, *Improving the Structure of the Code of Ethics for Professional Accountants* (the "Consultation Paper"). The AICPA is the world's largest member association representing the accounting profession, with more than 400,000 members in 145 countries and a 125-year heritage of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting; membership is also available to accounting students and CPA candidates. Throughout its history, the AICPA has been deeply committed to promoting and strengthening independence and ethics standards. Through the PEEC, the AICPA devotes significant resources to independence and ethics activities, including evaluating existing standards, proposing new standards, and interpreting and enforcing those standards.

General Comments

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. However, we have significant concerns regarding the restructuring of the IESBA Code for reasons that are presented below in the "Responses to Request for Specific Comments" and as a result do not lend overall support for this project.

Many member bodies, such as the AICPA, have been working towards convergence with the extant IESBA Code. In fact, as discussed below, the AICPA recently completed a significant project to restructure and codify the AICPA Code of Professional Conduct (AICPA Code) that brought it into closer alignment with the extant IESBA Code. Significant restructuring or drafting changes to the IESBA Code resulting from the Structure of the Code project will place a significant burden on member bodies and may hinder efforts to effectively converge with the IESBA Code.

We believe we are in a unique position to comment on this Consultation Paper and share our own experiences with the Board since the PEEC recently completed a similar restructuring project with regard to the AICPA Code. Specifically, in November 2008, the PEEC commenced a project to restructure and codify the AICPA Code so that members and other users of the AICPA Code could apply the guidance and reach correct conclusions more easily and intuitively. Unlike the extant IESBA Code, the AICPA Code was not structured by topic, did not incorporate a conceptual framework approach, and did not have separate parts applicable to professional accountants in public practice and those in business. In June 2014, a final revised AICPA Code was approved and became effective December 15, 2014. The revised AICPA Code is topically organized and restructured similar to that of the IESBA Code with the inclusion of two new conceptual frameworks, one applicable to members in public practice and the other applicable to members in business. This initiative took an enormous amount of committee and staff time and resources to complete and resulted in other projects being deferred until the project was completed.

In addition, while it was our intent to maintain the substance of the existing AICPA ethics standards, it became apparent that even minor drafting and editorial changes resulted in potential substantive changes to the guidance which took PEEC members and staff considerable time to evaluate and address. We also engaged various stakeholders and users of the AICPA Code to pilot test the document which resulted in over 300 comments submitted that needed to be addressed prior to exposing the document to membership. The overall project took close to six years to complete, a full-time dedicated staff person and a task force that generally met on a bi-weekly basis. Based on our experience with the AICPA codification project, we believe that any restructuring of the IESBA Code into sections such as “Purpose”, Requirements and “Application and Other Explanatory Material” will likely be a colossal undertaking, especially if the Board intends to maintain the integrity and substance of the extant guidance. We are also sympathetic to the significant number of existing projects on the Board’s current Strategy and Work Plan over the next few years and therefore ask that the Board carefully consider whether the benefits achieved by this project will outweigh the costs of the significant resources that will be needed to complete this project and the potential deferment of other important projects and issues that the Board could be addressing.

Responses to Request for Specific Comment

1. Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples, would be likely to achieve IESBA’s objective of making the Code more understandable? If not, why not and what other approaches might be taken?

No, we do not believe that the approach outlined in this Consultation Paper would make the Code more understandable. While some stakeholders have expressed concerns regarding the usability and enforceability of the Code, the AICPA which uses the IESBA Code extensively, has not experienced any significant issues in this regard. In fact, we have converged with many of the IESBA standards in the extant IESBA Code and believe for the most part, the guidance is clear and enforceable as written.

We have significant concerns regarding the proposed restructuring of the Code into various sections identified as: Purpose; Requirements; and Application and Other Explanatory Material. Specifically, we believe by separating the “requirements” from the “guidance” (i.e., the application and other explanatory material), the risk exists that users of the Code will only refer to the requirements rather than read the supplemental material which may lead to misapplication of the Code. In reviewing the illustrative examples, we noted that in some cases, this separation results in disjointed information which could pose confusion, making the Code more difficult to read and understand. In addition, as discussed above in our General Comments, based on our own experience with the revised AICPA Code it is highly likely that the restructuring and redrafting will lead to unintended substantive changes to the IESBA Code. Accordingly, ensuring that substantive changes to the Code do not result will entail a very time-consuming and onerous task by the Board (as well as for member bodies and other stakeholders who are asked to comment on the proposed draft).

We are aware that the IESBA has issued various stand-alone resources to assist stakeholders with identifying and understanding the specific requirements and prohibitions within the Code such as, the “High Level Summary of Prohibitions Applicable to Audits of Public Interest Entities” which we believe serves as a valuable tool and resource. We recommend that the IESBA consider issuing similar types of tools and resources to address any concerns raised by stakeholders on specific issues where they believe it is difficult to identify requirements within the guidance. We believe this is a more efficient way to address the concerns raised by certain stakeholders regarding the clarity and visibility of the requirements rather than the extensive work that would be involved in a full scale effort to restructure and redraft the IESBA Code.

2. Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples would be likely to make the Code more capable of being adopted into laws and regulations, effectively implemented and consistently applied? If not, why not and what other approaches might be taken?

No, we do not believe that the approach outlined in this Consultation Paper within the Illustrative Examples would make the Code more capable of being adopted into laws and regulations in the United States. We also do not believe the proposed approach would make convergence easier; on the contrary, it could hinder convergence due to the fact that many member body Codes, including the revised AICPA Code, would be significantly different from the IESBA Code in terms of structure. We believe the current structure of the Code to be adequate. As noted above, we recommend that the IESBA consider issuing stand-alone resources to assist stakeholders in identifying and understanding the specific requirements within the Code as deemed necessary.

3. Do you have any comments on the suggestions as to the numbering and ordering of the content of the Code (including reversing the order of extant Part B and Part C), as set out in paragraph 20 of the Consultation Paper?

We believe the independence requirements should be included as a section within the Part applicable to Professional Accountants in Public Practice (PAPP) rather than be moved to the

end of the Code. Independence is the bedrock of the profession and while it may not be applicable to all PAPPs, we believe it would be intuitive for PAPPs and other users of the Code to look to that Part for independence guidance. Moving the independence section to a separate Part at the end of the Code may also convey an unintended message concerning the importance and prominence of the independence requirements to key stakeholders.

While we do not necessarily object to reorganizing the guidance for Professional Accountants in Business (PAIBs) and PAPPs, we question whether it will add significant value to the usability of the IESBA Code and is necessary given the potential burden it will place on member bodies to revise the structure of their own Codes and references to Parts of the Code (i.e., within related documents and resources) in order to conform to such a change.

4. Do you believe that issuing the provisions in the Code as separate standards or rebranding the Code, for example as International Standards on Ethics, would achieve benefits such as improving the visibility or enforceability of the Code?

No, we do not believe that issuing the provisions in the Code as separate standards or rebranding the Code would achieve any benefits such as improving the visibility or enforceability of the Code. We do have concerns that issuing the provisions in the Code as individual standards could result in the partial adoption of the Code by member bodies (i.e., adoption of select standards only) and therefore may hinder convergence. We have always considered the extant IESBA Code to consist of ethics standards and we believe it has recognition of representing ethics standards around the globe by member bodies and firms.

5. Do you believe that the suggestions as to use of language, as reflected in the Illustrative Examples, are helpful? If not, why not?

Yes, we support the IESBA's efforts to achieve the goals to enhance the readability and clarity of the Code as described in paragraph 23 of the Consultation Paper. However, we have concerns that any edits to the existing provisions could result in substantive changes to the Code and therefore ask the Board to consider this approach only for purposes of any new guidance issued.

We also believe that the Code should continue to use the term "audit" for purposes of both audit and review engagements and do not believe a new section applicable to review engagements would be beneficial or necessary.

6. Do you consider it is necessary to clarify responsibility in the Code? If so, do you consider that the illustrative approach to responsibility is an appropriate means to enhance the usability and enforceability of the Code? If not, what other approach would you recommend?

No, we do not believe it is necessary to address this issue within the Code. Any clarification as to which individuals within the firm should be responsible for the various provisions within the Code should exist within ISQC 1 and therefore under the purview of the IAASB.

In addition, due to the vast differences in firm size and structure, we believe there should be flexibility and firms should be allowed to use judgment in determining who within the firm should assume such responsibility. We believe the existing reference to the ISQCs in paragraph 290.12 is sufficient for purposes of the Code and do not believe additional guidance within the Code on who should be held responsible is appropriate or necessary.

We also note that from an enforcement perspective, member bodies and others who enforce the Code will determine who should be held responsible for a violation of a specific provision through their own enforcement process. For example, the AICPA Code refers to ‘member’ throughout the Code (whereas the IESBA Code refers to professional accountant or firm). Through our enforcement policies and procedures we have identified which members within a firm should be held accountable for any breaches of the rules, including independence breaches.

7. Do you find the examples of responsible individuals illustrated in paragraph 33 useful?

No, we do not find the examples of responsible individuals useful as we do not find it necessary to clarify responsibility in the Code as noted in our answer to question 6.

8. Do you have any comments on the suggestions for an electronic version of the Code, including which aspects might be particularly helpful in practice?

We fully support the IESBA’s initiative of an electronic version of the Code. The AICPA recently released an electronic version of our Code with enhanced functionality and search features. We would welcome the opportunity to meet with members of the IESBA Task Force and the IFAC staff to discuss our process and the various features of the new AICPA on-line Code.¹

9. Do you have any comments on the indicative timeline described in Section VIII of this Paper?

As noted above, based on our own experience with restructuring and codifying the AICPA Code, we believe the Board’s indicative timeline is overly ambitious and it is unlikely the goal of issuing an exposure draft of a fully restructured Code after its October 2015 meeting will be achievable given the extensive amount of work and time needed to address and incorporate all comments received resulting from this Consultation Paper and careful review of each and every edit to the Code to ensure it does not result in a substantive change. In addition, if the Board decides to continue with this project, we would highly recommend that the Board consider “pilot-testing” the restructured Code with a select group of key stakeholders prior to releasing it to the public for full exposure. While this would extend the timeline for the project, we found this process to be extremely valuable for purposes of restructuring and codifying the AICPA Code.

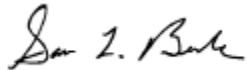
¹ <http://www.aicpa.org/RESEARCH/STANDARDS/CODEOFCONDUCT/Pages/default.aspx>

10. Do you have any other comments on the matters set out in the Consultation Paper?

We have no further comments.

We appreciate this opportunity to comment. We would be pleased to discuss in further detail our comments and any other matters with respect to the IESBA's Consultation Paper.

Sincerely,



Samuel L. Burke, CPA
Chair, Professional Ethics Executive Committee

cc: Brian Caswell, CPA, IESBA Member
Lisa Snyder, CPA, CGMA, Director – Professional Ethics