

Mr. Ken Siong
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

1 June 2017

Dear Mr. Siong:

Improving the Structure of the Code of Ethics for Professional Accountants - Phase 2

We are pleased to comment on the Exposure Draft, *Improving the Structure of the Code of Ethics for Professional Accountants - Phase 2*. As we expressed during Phase 1 of this project, we fully support efforts 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 agree that such changes will facilitate adoption and increase effective implementation, as well as support consistent application and enforcement of the Code.

We were and continue to be supportive of the overall approach agreed by the Board to reduce complexity and improve the clarity of the Code, including raising the visibility of the Code's requirements, clarifying who is responsible for compliance and clarifying the Code's language. However, we did raise a number of concerns during Phase 1 of this project, the most significant of which were the quality of the end product and the possibility for unintended changes in meaning of the Code.

We have performed a detailed review of the draft Code currently under exposure and believe that the concerns we expressed during *Phase 1* have, to a major extent, been addressed. The majority of our detailed observations from our review of the Code relate to text that we believe could be further improved to enhance clarity or re-ordered to improve understandability. We have identified only a few instances where the revised text may potentially have resulted in an unintended change in meaning.

Four specific questions were identified on which the Board welcomed respondents' views and we have organized our response accordingly. Our comments are set out below and in the Attachment - Detailed observations.

Request for Specific Comments

Structure of the Code Phase 2

- 1. Do you believe that the proposals in this ED have resulted in any unintended changes in meaning of:**

The provisions of Part C of the Extant Code, as revised in the close-off document for Part C Phase 1 (see Sections 200-270 in Chapter 1)?

We have not identified any unintended changes in meaning in the above referenced sections except for the comments contained in the attachment.

The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)?

We have not identified any unintended changes in meaning in the above referenced sections.

The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)?

We have not identified any unintended changes in meaning in the above referenced sections except for the comments contained in the attachment.

The provisions addressing restricted use report in the extant Code (see Section 800 in Chapter 4)

We have not identified any unintended changes in meaning in the above referenced sections except for the comments contained in the attachment.

The provisions relating to independence for other assurance engagements (Part B in Chapter 5)? If so, please explain why and suggest alternative wording?

We identified four possible changes in meaning in Part B, Chapter 5, as outlined below (see Attachment for additional detail):

- The revised text for Section R900.32 appears to eliminate a safeguard previously available under extant Code Section 291.32: "Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for this section."

This safeguard has been retained in the corresponding Section 400.32 applicable to audit and review engagements, and we suggest that this safeguard be re-instated in Section R900.32.

- The revised text for Sections R900.51 and R900.52 seems to suggest that only the firm can take actions to address the consequences of a breach, or the engagement must be terminated which appears to exclude the possibility that the client, rather than the firm may be able to take satisfactory action to address the breach which is provided for in the extant Code.

We suggest the text from the extant Code be re-instated or the section be re-phrased to be consistent with the existing provision which includes this additional safeguard.

- The revised text for Section 911.6 A2 appears to eliminate caveats included in the extant Section 291.113 which requires the reviewing professional from a network firm neither be involved with the assurance engagement nor be the recipient of the loan.

We ask the Board to consider including the caveats contained in extant Section 291.1 in the revised Section 911.6 A2.

- The revised text for Section 920.5 does not appear to address non-purchase-related business relationships by immediate family members which is contained in the last paragraph of Section 291.118 of the extant Code.

We suggest the Board consider addressing such business relationships in Section 290.5 consistent with Section 920.5 of the extant Code.

We would also like to take this opportunity to re-state a comment which we included in our April 25, 2017 response to *Proposed Revisions Pertaining to Safeguards in the Code - Phase 2* regarding the use of "might" in some sections of the Code. We consider that the use of the word "might" versus "may" appears to weaken the requirements regarding identifying threats to independence. Many technical resources regarding English language suggest that "might" is

normally viewed as suggesting something more remote than “may”. For example, Merriam-Webster indicates that “might” suggests “less probability or possibility” than “may”. Where the substitution of “may” with “might” appears to function in the sections presented in Phase 1 of Safeguards and Structure projects project, it appears inappropriate in the context of Section 600 and non-audit services as it appears to understate the true level of risk that such a threat may exist. For example, the statement “Providing valuation services to an audit client might create self-review threats” appears to suggest that a self-review threat would be remote when in reality it is likely in most situations.

We suggest using some other wording that reflects more accurately the risks of threats occurring. The Merriam-Webster dictionary definition of “may” suggests it can be used interchangeably with the word “can” which we consider is a better alternative to “might”. In the context of safeguards, the introduction of a conditional word such as “might” appears appropriate because it reminds the PA that the safeguard may not always be effective as a means of reducing a threat. However, the word “can” would seem to reflect more accurately the probability or possibility that the safeguard would be adequate.

2. **Do you believe that the proposals are consistent with the key elements of the restructuring as described in Section III of this Explanatory Memorandum?**

Conforming Amendments Arising From the Safeguards Project

Yes, we believe the proposed revisions to the Code are consistent with the key elements of the restructuring as described in Section III of this Explanatory Memorandum. However, we have identified certain sections of revised text where understandability might still be further enhanced or clarified, and our detailed observations in this regard are included in the Attachment.

3. **Respondents are asked for any comments on the conforming amendments arising from the Safeguards project. Comments on those conforming amendments are requested by April 25, 2017 as part of a response to Safeguards ED-2.**

Our comments on the conforming amendments arising from the Safeguards project were submitted to the Board on April 25, 2017.

Effective Date

4. **Do you agree with the proposed effective date for the restructured Code? If not, please explain why not.**

As already noted in our comment letter to the Exposure Draft on Safeguards ED-2, we are concerned that the proposed effective date for the restructured Code of June 15, 2019 may not allow adequate time for successful implementation. The restructuring of the Code and the resulting changes to the conceptual framework introduce a whole new approach which will require time for regulators, firms and other interested parties to adopt and incorporate into their rules, regulations and policies. To maximize the substantial improvements resultant from the Structure Project, it is essential that the Board allow sufficient time for all such parties to properly adopt and

implement the required changes. We believe that an extension to the effective date should be considered to allow for a more consistent and robust adoption of the revised Code.

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) and PAIBs - The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.

No comment

(b) Regulators and Audit Oversight Bodies - The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.

No comment

(c) 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.

No comment.

(d) Translations - Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

As included in our response to the *Proposed Revision Pertaining to Safeguards in the Code - Phase 2*, we believe that certain jurisdictions will be challenged to translate all documents relevant to the overall restructuring project in order to provide timely and wholesome comments. If, as anticipated, the Board completes the restructuring of the Code in December 2017, with the earliest effective date (for most sections) being 15th June 2019 this would present many professional bodies with a relatively short 18 month window in which to translate, obtain feedback and approve an entirely revised Code.

We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Bob Franchini (+39-02-7221 2014) or Susan Nee (+1 305-510-0172).

Yours sincerely,

Ernst + Young Global Limited

Ernst & Young Global

Improving the Structure of the Code of Ethics for Professional Accountants—Phase 2

Attachment: Detailed observations

Detailed observations		
Section	Explanation	Suggestion
200.4	“(b) Professional accountants in public practice when performing.....” Could be more concise and direct.	Re-word: “Professional accountants in public practice when performing professional activities related to their firm, either in an employment or ownership capacity.”
200.6 A1 (d)	“A professional accountant having a long association with contacts influencing business decisions.” The use of the word “contact” is confusing	We suggest to use the phrase “directors, officers or employees” rather than “contact.”
220.8 A1	First bullet: do we need the repetition of the word “determining”?	Suggest re-word to read: “Determining estimates, for example, fair value estimates in order to misrepresent profit or loss.” This is in line with succeeding example bullet points (see bullets 3 & 4).
R220.9	“(b) The context in which it is given; and”. Word “within” should replace word “in”.	Consider rewording to read: “(b) The context within which it is given; and”
R220.10	Relying on the work of others – is this the correct positioning of the “Restructured” paragraph? 220.10 A1 sets out the factors underpinning whether or not it is appropriate to rely on the work of others, only after deciding whether or not to do so, should the reader be thinking about exercising professional judgement and which steps to take.	Consider switching the order of R220.10 and 220.10 A1
R220.13 (220.13 A1 & A2)	How does the accountant refuse to be or remain associated with the information?	Consider an example of how an accountant might do this? If the following sections 220.13 A1 and 220.13 A2 are intended to be examples or contain examples then consider indenting them as

Detailed observations		
Section	Explanation	Suggestion
		examples, not separate subsections, in line with the preceding sections and their examples.
R230.5	“Communicate the reasons.” To whom?	Consider a suggestion or examples of where to communicate the matters/reasons. Is it the case that the reader should be reporting to those charged with governance?
R270.5	“(b) Applying safeguards, where available or capable of being applied; or” As has been done with other sections do we need to exemplify options available to the professional accountant, where potential safeguards are concerned?	Consider linking back to other safeguards previously mentioned or give an example here. Is it the case that 270.4 A6 are in fact the examples, if this is intended to be the case, then perhaps R270.5 should be positioned before 270.4 A6 and the aforementioned paragraph is broken down into examples of potential safeguarding?
540.4 A3	Safeguards are suggested before examples of threats are given.	Consider re-ordering to list threats before safeguards.
540.5 A1	This should be earlier in the chapter – it deals with evaluating the threats before deciding which actions are appropriate as safeguards.	Suggest re-locate to earlier in the chapter.
540.5 A2	“For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client’s senior management would be reduced by the departure of that member of the client’s senior management <u>and the start of a new relationship.</u> ” The last phrase in the sentence seems unnecessary.	Suggest remove “and the start of a new relationship.”
R540.6	This paragraph sets the general principle to which other sections will provide certain exceptions. It seems unnecessary to start the paragraph with “Subject to paragraphs R540.7 to R540.9”, as the	Suggest remove “Subject to paragraphs R540.7 to R540.9.”

Detailed observations		
Section	Explanation	Suggestion
	exceptions further down in the text clearly mention “as an exception to ...”	
540.6 A1	The reference R540.10-12 is technically incorrect as the individual has not completed the ‘time-on’.	Consider whether reference to R540.10-12 is correct.
540.7 A1	There appears to be some unnecessary language and clarity could be enhanced.	Consider the following language instead: “For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm will discussing with those charged with governance the reasons why the planned rotation cannot take place and agree on (or propose) appropriate the need for any safeguards to reduce any threat created.”
R540.12	Original wording was easier to read: “If the individual has acted in any other capacity as a key audit partner for seven ...” New text: “If the individual has acted as a key audit partner other than in the capacities set out in R540.10 and R540.11 for seven ...”	Suggest retain the extant language.
540.19 A1	The term ‘Senior or Managing Partner (Chief Executive or equivalent)’ (original text) has been changed to ‘Chief Executive or equivalent’ (ED).	Consider retaining terminology from extant Code as it is broader and recognizes that such roles have a multitude of titles.
R540.20	This is a general principle – it would make more sense to have it before R540.5	Suggest move section to precede R540.5

Detailed observations		
Section	Explanation	Suggestion
540.20 A1	This paragraph is an exception to R540.6 ...	Suggest R540.20 A1 should be grouped with the other exceptions.
940.5 A1/A2	Factors relevant to evaluate the threats should be earlier in the section – at least before the safeguards.	Suggest re-locate 940.4 A2 and 940.4 A3 to earlier in the section. Also, suggest remove “and the start of a new relationship...” from 940.5 A2 consistent with earlier comment.
800.2	“Section 800 sets out certain modifications to Part 4A (excluding this section) which ...” The mention “(excluding this section)” seems unnecessary.	Consider whether inclusion of the phrase “(excluding this section)” is necessary.
R800.7	<p>“When the firm performs an eligible audit engagement, references to audit client in Part 4A (excluding this section) do not need to include its related entities.”</p> <p>The use of “do not need to include” seems to add unnecessary ambiguity.</p>	Suggest removing “need to” so sentence reads: “When the firm performs an eligible audit engagement, references to audit client in Part 4A (excluding this section) do not include its related entities.”
R800.9	“The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and close family members.”	<p>Suggest removing “need” so the sentence would read:</p> <p>“The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 apply only to the members of the engagement team, their immediate family members and close family members.”</p>
900.1	<p>“Examples of such engagements include:</p> <ul style="list-style-type: none"> • An audit of specific elements, accounts or items of a financial statement. • Performance assurance on a company’s key performance indicators.” 	Suggest additional examples be added to this section including reports that may be in the public domain. For example, sustainability reports.

Detailed observations		
Section	Explanation	Suggestion
	Could additional (more recent) examples be included?	
R900.20	The original text in 291.19 says “the members of the assurance team and the firm shall be independent of the party responsible for the subject matter information.... <i>In addition</i> , an evaluation shall be made of any threats the firm has reason to believe are created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter (<i>emphasis added</i>).”	Suggest the revised provision similarly read “(a) the members of the assurance team... <i>and</i> (b) an evaluation shall be made” (i.e. sentence structure should be the same as R900.19 and R900.21 which have similar meaning).
900.22 A1	Second sentence revises the original text as follows: “In determining whether it is necessary to apply the provisions in this section to each responsible party in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information.” Splitting this section into two sentences does not seem necessary.	Suggest the following language: “In determining whether it is necessary to apply the provisions in this section to each responsible party in such engagements, the firm may take into account certain matters, including whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information.”
900.30 A1	The first sentence revises the original text as follows: The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement .	The original text (“with respect to the particular engagement”) is clearer and it allows that there might be multiple engagement periods. Suggest reinstating extant language.
R900.32	Revised text eliminates the following safeguard previously available under Section 291.32:	Suggest that Section 900.32 should align to Section 400.32 and the safeguard be re-instated.

Detailed observations		
Section	Explanation	Suggestion
	<p>“Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.”</p> <p>Furthermore Section 400.3214 A1 provides as follows:</p> <p>Examples of actions that might be safeguards to address threats to independence include:</p> <ul style="list-style-type: none"> • Not including individuals who provided the non-assurance service as members of the audit team. • Having a professional accountant review the audit and non-assurance work as appropriate. • Engaging another firm to evaluate the results of the non-assurance service. <p>Having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.</p>	
R900.51, R900.52	<p>These provisions revise the original text as follows:</p> <p>If the firm determines that it cannot take action cannot be taken to satisfactorily address the consequences of the breach, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate. The firm shall also, and take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.</p>	<p>Revision suggests that only the firm can take action to address the consequences of a breach, or the engagement must be terminated. We understand the goal of removing the passive voice, but it appears to exclude the possibility that the client rather than the firm may be able to take satisfactory action? Same comment for R900.52.</p>

Detailed observations		
Section	Explanation	Suggestion
R910.8	<p>R910.7 A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:</p> <ul style="list-style-type: none"> a) The firm; or b) An assurance team member or any of that individual's immediate family. <p>R910.8 When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.</p>	Suggest the structure of the provision be parallel to R910.7 – seems to be the same meaning.
911.6 A2	<p>The safeguard in the last sentence reads, “If the loan is to a firm, the reviewing professional might be someone from a network firm.”</p> <p>The original text in Section 291.113 specifies that this must be a “professional accountant from a network firm that is neither involved with the assurance engagement nor received the loan.”</p>	Consider whether the caveats included in the extant language should be incorporated in this section.
R920.5	The last paragraph of extant text 291.118 is eliminated, so that “close business relationships” by immediate family members is not addressed. (IFM is only addressed in the “buying goods and services” section). The resulting text does not specifically address non-purchase-related business relationships by IFMs.	Address business relationships between Immediate Family Members and audit client, other than purchases.
921.4 A1	<p>Revised text:</p> <p>Threats might be created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client. Factors that are relevant in evaluating the level of any such threats include:</p> <ul style="list-style-type: none"> • The individual's responsibilities on the assurance team. • The role of the family member or other individual within the client, and the closeness of the relationship. 	<p>Suggest the three factors listed all be captured by bullet points, as below:</p> <ul style="list-style-type: none"> • The individual's responsibilities on the assurance team; • The role of the family member or other individual within the client; and • The closeness of the relationship.

Detailed observations		
Section	Explanation	Suggestion
924.5 A1	Revised text eliminates the example, previously in Section 291.127 (4 th bullet) “whether the individual was responsible for maintaining regular contact with the client’s management or those charged with governance.”	Suggest re-inserting the example, as the revision tends to reduce clarity rather than enhance it.