

May 23, 2017

Mr. Ken Siong
Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017 USA

Dear Mr. Siong:

Re: January 2017 Exposure Draft, *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2 With Certain Proposed Conforming Amendments Arising from the Safeguards Project*

I am writing on behalf of the Public Trust Committee (PTC) of the Chartered Professional Accountants of Canada (CPA Canada) in response to your request to comment on the Exposure Draft entitled *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2 With Certain Proposed Conforming Amendments Arising from the Safeguards Project* (“the Exposure Draft”).

CPA Canada is the national body of Canada’s accounting profession, with more than 200,000 members both at home and abroad. The Canadian CPA designation was created with the unification of three legacy accounting designations (CA, CGA, and CMA).

CPA Canada conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the Canadian CPA profession nationally and internationally. The PTC is responsible for overseeing the regulatory structures and processes across provincial jurisdictions in Canada. The PTC’s goals include achieving consistency between the provincial CPA bodies in Canada and ensuring that the processes and standards in Canada meet or exceed the international standards.

Thank you for the opportunity to provide our comments on this Exposure Draft. We noted through our profession’s consultation, the considerable expectations and difficulty in consuming and responding to several exposure drafts and related documents simultaneously. Having said this, we also recognize the workload involved in IESBA’s estimated timetable to finalize a newly restructured Code for adoption in 2019. Respectfully, however, we suggest that extending longer comment periods when multiple exposure drafts are issued would enhance the ability of accounting

bodies to conduct meaningful consultations with stakeholders, increase efficiency and enable more thorough responses.

Generally, we support the proposals contained in the Exposure Draft and we found an overall view through our consultation efforts that the restructuring project was resulting in an overall improvement to the Code.

Please find below our responses to the requested matters for input from Respondents as outlined in the Explanatory Memorandum's Guide for Respondents.

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

Without the experience of using and applying the IESBA Code, it is somewhat challenging to identify any unintended alterations of meaning occurring through the restructuring process. We have, however, identified for consideration the points that were raised through our consultation according to the headings specified in Question 1:

A. The provisions for 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)?

- Generally, complications may arise when very similar matters are included in the Parts of the Code for Professional Accountants in Business and Professional Accountants in Public Practice. This was highlighted in our response to the Applicability ED and it was noted again in consideration of this Exposure Draft as it may be confusing for a Professional Accountant who needs to be aware of and apply two different sets of similar, but not necessarily identical, requirements.
- With Parts of the Code developed based on roles, some observations were noted where the application guidance or a requirement appears in one Part but not both such as:
 - 210.7 A3 - whether similar application guidance would also be relevant for the Professional Accountant in Public Practice
 - 310.5 A1 - whether similar application guidance would also be relevant for the Professional Accountant in Business
 - 310.8 A2 - whether similar application guidance would also be relevant for the Professional Accountant in Business
 - R310.11 - whether a similar requirement should also be included regarding Professional Accountants in Business
 - 360.15 A1 - whether similar application guidance should also appear in section 260 for Professional Accountants in Business

- 210.8 A1 was viewed as standalone application guidance that should potentially be considered as a requirement to ensure enforceability followed by application guidance with respect to the form of consent. Generally, it was observed that R210.5 to 210.8 A3 could be improved with ordering of the information leading from that which was general to the specific.
- 210.10 A1 appears to need more clarity/specificity as to what the reader is being referred to or what the reader should be looking for as relevant in the statement “Requirements and application material relevant to such threats is set out in Sections 220, 240 and 270.” In comparison to this style of reference, 220.14 A1 and 230.5 A1 were cited as more helpful and relevant in providing meaningful cross-references.
- 220.7 A1 – This paragraph is phrased more as a requirement as opposed to application guidance. Furthermore, R220.10 references fulfilling the responsibilities set out in 220.7 A1.
- 220.10 A1 - Should “Factors” be preceded by “Some” to ensure the list is not considered to be all-inclusive?
- R220.11 has a heading “Addressing Information that Might be Misleading” whereas the requirements appear to address situations where information is or may be misleading. Respectfully, we suggest that a choice should be made as to whether the threshold is either the suspicion of misleading information or the certainty of misleading information (i.e., “might be” versus “is”).
- Inconsistency was identified where R220.12 and R220.13 use the phrase “reason to believe” which was noted to be a different standard than “becomes aware” as indicated in R220.11
- *The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)?*
 - The undefined term “scheme” was noted in 260.20 A2 and 360.25 A2. It was identified that it has varying connotations in various jurisdictions and that without defining, it may lead to inconsistent application. In contrast, it was noted that otherwise commonly used and understood words such as “may” and “might” were defined and included in the glossary.
 - As a housekeeping observation, it appears that “senior” is missing in front of “professional accountant” in 260.22 A1.
 - 360.28 A1 – It was noted that references to International Standards varied and may require the reader to research well beyond the Code to understand the Code’s provisions. In this regard, 360.28 A1 is informative and helpful to the reader.
 - An observation was made that the documentation described at 360.40 A1 should likely be the same as that appearing in R360.28.
- *The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)?*
 - No items noted.
- *The provisions addressing restricted use reports in the extant Code (see Section 800 in Chapter 4)?*

- As highlighted in our response to the Safeguards ED-2, we believe that significant potential confusion remains within the Code through the use of the term “audit” defined in part of the Code to include reviews. Given the inherent differences between the two and the prevalence of review engagements in Canada, we believe that the use of “audit” and “review” separately identified and stated consistently within the Code, where applicable, would be strongly preferred.
- *The provisions relating to independence for other assurance engagements (Part 4B in Chapter 5)?*
 - It was noted that “Other” has been used in the titles, headings and 900.1 and it is believed that greater clarity would be achieved if it was retained throughout in reference to other assurance engagements.
 - It was observed that potential confusion may result from the description of assurance engagements in 900.1 versus the glossary definition. As practitioners seeking guidance may not read all sections from 900.1 onward, there is a real risk of missing information critical to the meaning and appropriate application of this section.
 - It was suggested that 900.40 A1 would be improved with the deletion of “However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.”
 - As a housekeeping observation, it appears that the reference in 924.6 A2 should be made to 924.6 A1.
 - It was noted that the titles should not be identical and should be made clearer for Section 800 regarding audits and 999 regarding other assurance engagements.

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?

Generally, we believe that the proposals are consistent with the key elements of the restructuring as described in Section III of the Explanatory Memorandum.

However, as noted above, it was observed that greater clarity would be achieved through the use of “audit” and “review” separately identified and stated consistently within the Code, where applicable. In addition, clear and consistent use of “Other” as it relates to other assurance engagements was strongly preferred to avoid unnecessary confusion.

It was noted that some inconsistency seemed to exist within the Exposure Draft regarding the use of “professional accountant” and “accountant” only, which could result in confusion. To ensure clarity and ease of use for the reader, we respectfully suggest that “professional accountant” should be used consistently throughout. We believe that any additional volume created is warranted for the sake of clear and easy understanding. Similarly, consistent description throughout the Code, whether by acronyms or words, would be desirable for Professional Accountants in Business and Professional Accountants in Public Practice.

In responding to the 2016 Structure ED-1, we noted that each section could be strengthened if it began with reference to the applicable Fundamental Principle(s). We believe that this would further enhance the clarity for the user of the principles basis of the Code supported by the specific requirements. An example of this is contained in the Introduction to Section 260 and it is suggested that consistent introductions throughout the Code citing the relevant fundamental principles as in 260.2 would be very positive.

It was also observed that consistent use of language would be desirable regarding the application of the conceptual framework and the threats and safeguards approach. R900.16 was identified as an effective description of such requirements.

We observed that consistent use of key terms is important for the clarity, usability and enforceability of the Code. Consequently, as an example, we noted that the fundamental principles should be used consistently while avoiding the potential exchange for other words that may be similar but have a different meaning.

With respect to format, we respectfully suggest that the consistency of the Code could be enhanced by making a deliberate choice between bulleted lists (where the list is not exhaustive) and lists denoted by alpha or numeric references (for lists where all intended items are included).

We noted that the clarity of 800.7 and 800.8 may be enhanced if the ordering of the requirement to assess appeared before the potentially applicable exemptions.

It was observed that greater clarity may be warranted in R360.22. The requirement relies on a “request by the proposed successor accountant” and it is not clear whether the request would be for a standard “takeover” letter or more specifically for a form of NOCLAR disclosure and what that may entail. It was also noted that the requirement draws in some of the application material in 360.22 A1 in describing the requirement. It was felt that greater clarity within R360.22 would enhance the Professional Accountant’s understanding, ability to comply and also with respect to the enforceability of this requirement.

Conforming Amendments Arising from the Safeguards Project

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.

As requested, we have separately communicated regarding the conforming amendments and Safeguards ED-2 in our response dated April 21, 2017.

Effective Date

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

Overall, we believe that an effective date that is sooner rather than later is desirable. Without the experience of using and applying the IESBA Code, we recognize that there will be preparatory work ahead for those countries that have adopted the Code and that June 15, 2019 (transitional provisions noted for Sections 540 and 940), with early adoption permitted, appears to be reasonable.

Request for General Comments

As noted above, we believe that the Code restructuring project is resulting in a notable improvement to the Code.

However, it was noted through our consultation, that the size and complexity of the Code may be difficult for some Professional Accountants. Most notably SMPs and those having multiple roles, as identified by the parts of the Code, who need to determine the full scope of requirements applicable to them, may experience challenges due to the overall size and complexity of the Code. Greater analysis of these matters was included in our response dated April 21, 2017 concerning the proposed Applicability provisions in regards to Part C of the Extant Code.

In reviewing Chapter 2 of the Exposure Draft concerning NOCLAR, we noted again that jurisdictions such as Canada that do not have comprehensive legal or regulatory frameworks to report NOCLAR also tend to lack effective legislative protection for whistleblowers. As such, the burden of the Code upon Professional Accountants may increase in ways that are yet to be determined. Examples include:

- the appropriateness and economic implications of an expanding scope of work,
- the possible effect on the relationship between the Professional Accountant and the client or employer with respect to the future sharing of potential NOCLAR-related information, and
- the possible legal liability and insurance exposure that could emanate from actual or suspected NOCLAR disclosure.

Furthermore, in some jurisdictions, confidentiality by Professional Accountants is a requirement, as is the case for example in the Province of Québec, where professional secrecy is provided for under section 9 of the Québec *Charter of Human Rights and Freedoms*. As a result, and as we indicated in our 2015 response to the NOCLAR ED, Professional Accountants may not be in a position to follow the guidance provided unless specific legislation provides for same.

With respect to the navigability of the Code, we respectfully suggest that a numbering protocol should be adopted whereby a consistent set of numbers is reserved in every section for “country use” so that as countries adopt the Code they will have the flexibility to tailor or add to sections in

specific reference to their country's potential needs. Such a numbering protocol would likely enhance the adoptability of the Code and ensure its flexibility for future and at present, unknown local needs.

We believe the usability and clarity of the Code would be enhanced if defined terms were identified with the use of bold text. This would be very helpful for those users who utilize a hard paper copy as we anticipate that the new electronic version of the Code will hyperlink definitions for ease of reference. Identifying defined terms in the text is especially helpful for common words that readers may not expect to have specific definitions different from their conversational meaning.

Regarding the electronic version of the restructured Code, we are looking forward to learning more about its capabilities and the plans for making it available for review. We believe that it will be important for countries to understand how the electronic Code can be shared and used. Through our discussions, we identified important issues including use by countries having local adaptations to the Code and the need for archives as future changes are made. Generally, we observed the need for a transition plan towards the introduction of an electronic version of the Code to ensure awareness and understanding of the many inherent details.

We thank you for the opportunity to comment on this Exposure Draft and commend IESBA for the notable improvements being made to the Code through the restructuring project. We appreciate that further revisions to the proposals may result through the feedback provided by stakeholders.

Yours truly,



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Chair, Exposure Draft Working Group – Public Trust Committee
CPA Canada