



International Organization of Securities Commissions
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30 January 2015

Technical Director
International Ethics Standards Board for Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017 U.S.A.

Our Ref: 2015/JE/C1/IESBA/1

Subject Line: IESBA’s Consultation Paper, *Improving the Structure of the Code of Ethics for Professional Accountants*

Dear Sir:

The International Organization of Securities Commissions’ Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants’ (the IESBA or the Board) Consultation Paper, *Improving the Structure of the Code of Ethics for Professional Accountants* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO’s mission through thoughtful consideration of accounting, disclosure and auditing concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Overall Comments

We support the Board’s project as we believe the IESBA should pursue an approach to clearly differentiate between requirements and guidance within the Code and identify with



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greater specificity the individuals within the firm who have responsibility for compliance with the Code. We believe addressing these matters could be a positive, initial step in improving the enforceability of the Code. This said, we would like to be clear that changes to the structure alone are not sufficient to improve the effectiveness of the Code in addressing its enforceability or improving the auditor’s professional conduct, including with respect to independence, in the execution of their work.

We believe that the Board’s project to undertake a review of the threats and safeguards in the Code if performed in tandem with the structure of the Code project would be more effective in improving the substance and enforceability of the Code and enhancing the auditor’s professional conduct. As such, we believe the Board should establish a process whereby issues relevant to both projects could be effectively shared and addressed.

We have included in our letter below some additional observations that we believe will assist the Board in making the structure of the Code project effective.

Standards versus Code

We believe the notion of rebranding the Code and issuing some or all of the provisions as separate standards should be viewed as more than simply improving the visibility of the Code. We believe issuing the provisions of the Code as separate standards together with rebranding along the lines of “International Standards on Independence and Ethics” could contribute to changing the mindset with which auditors approach the provisions of the Code. We believe “standards” more appropriately conveys the notion of principles that need to be adhered to as opposed to a “Code” which is more synonymous with the communication of aspirational goals.

Composition of Sections

We believe it would be useful for the Board to implement a similar layout as used by the International Auditing and Assurance Standards Board (IAASB) as part of the IAASB’s “ISA clarity project”. The Board could use a similar format within each newly constituted standard to establish areas specifically dedicated to the following:



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1. Objectives – to clearly and specifically identify the threat that could be reasonably possible with respect to the provision of the Code and the auditor’s overall goal in addressing the threat.

The objectives section should also emphasize that requirements may not be all encompassing so that having complied with the requirements the auditor should always step back to determine whether the objectives were met having considered the specific facts and circumstances of the issue at hand. We note that the “purpose” section currently proposed in the Paper includes language that is general and more introductory in nature and does not satisfy the need for establishing objectives.

2. Requirements – to establish provisions the auditor must follow to support the objective.
3. Application Material – to provide guidance and more precisely explain what a requirement means or is intended to cover.

We believe that our suggested changes noted above could enhance the ability of practitioners to implement the standards while at the same time they could produce benefits such as increased clarity and enforceability of the provisions and better flexibility for future changes or additions to provisions. However, the Board should be careful to provide a strong and clear link between the various standards and the fundamental principles.

Fundamental Principles

The Paper states that the “IESBA is mindful of the importance of the conceptual framework approach which addresses threats to compliance with the fundamental principles rather than simply complying with rules.” It further recognizes “the general requirement to comply with the conceptual framework established in Section 100 [of the Code].” However, in practice, on more than an infrequent basis, auditor oversight and securities regulators have encountered auditors who attempt to justify their actions by indicating compliance with the requirements without stepping back to determine if the facts and circumstances suggest that the fundamental principles may be violated though the requirements were achieved.

The fundamental principles are not simply background information but are overarching objectives that auditors must meet whereas the standards-specific requirements capture



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specific areas identified by the Board to which auditors must comply. We believe greater emphasis should be placed on the need for auditors to step back after complying with the standards-specific requirements to determine if, based on the facts and circumstances, the auditor is independent with respect to the fundamental principles which, pursuant to our suggestions above, could serve as and be called overall objectives.

Identification of a Firm's or Individual Professional Accountant's Responsibility

We note that the Paper states:

“IESBA has considered the input from IOSCO and other stakeholders on the issue of responsibility. In the view of IESBA, a global code should be sufficiently flexible to accommodate different circumstances that firms need to take into account when prescribing the specific responsibility of individuals within the firm for actions related to independence. Responsibility may differ depending on the size, structure and organization of a firm and the culture in which it operates.”

While we recognize the Board is tasked with writing a global code, we believe the Code should establish provisions that are appropriate for auditors serving the public capital markets with appropriate, limited exceptions for auditors with smaller operations serving less developed markets. While we believe it is beneficial for the Code to recognize audit firms and practices of varying sizes and structures, we are concerned that establishing provisions with an undue emphasis on accommodating audit firms with small operations increases the risk of compromising on requirements necessary to guard the public interest particularly regarding the capital markets. For example, in our letter to the Board dated 30 January 2012 regarding the IESBA's Exposure Draft, *Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing a Breach of a Requirement of the Code*, we stated that:

“When a breach of an independence provision is uncovered we believe that the firm's assessment and determination of the outcome of the breach should be elevated within the firm to, for example, the firm's quality control function and/or firm leadership, thus not left solely to members of the audit engagement team or local office management. This approach can provide a fresh perspective on the issue at hand, promote consistency of application and can help minimize what may be the



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engagement team’s bias for continuing the audit engagement. We suggest that such a consultation requirement be included in the Code.”

We continue to strongly uphold this view. In this regard, if the Board simply includes “a requirement in the Code for a firm to establish relevant policies and procedures to assign responsibility...” as is currently being considered to accommodate firms of different sizes, we are concerned that this open-ended approach lacks specificity and does not address the fundamental threat we identified of potentially having an individual in the local office tasked with resolving a local engagement team’s breach of an independence requirement. Audit firms serving the capital markets should have sufficient resources and personnel to enable issues such as these breaches to be addressed by the appropriate members of senior management most qualified to objectively deal with the breach.

We also encourage the Board to work with the IAASB to ascertain that the final outcome in the Code regarding assigning responsibility to specific individuals who are responsible for addressing compliance and independence issues does not conflict with ISQC 1 or the ISAs.

Use of language

We support the Board in attempting to simplify the language used in the Code. We believe that simplifying both the sentences and the grammatical structure thereof and avoiding the use of the passive voice could enhance the understandability of the Code. We also encourage the IESBA, as well as the IAASB, to pursue commonality in their use of language and terminology in their respective pronouncements.

Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact either Nigel James or me at 202-551-5300.

Sincerely,

Julie A. Erhardt

Chair, Committee on Issuer Accounting, Audit and Disclosure
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