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Our ref SS/288  
Contact Sylvia Smith

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Dear Mr Siong

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

We appreciate the opportunity to comment on the above Consultation Paper issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG network.

Our overarching comments are set out below. The appendix to this letter provides our responses to the specific questions posed in the Consultation Paper.

We are supportive of the considerations set out in the Consultation Paper, including restructuring and reorganising the content and layout of the Code as well as the clarification and simplification of the language. We believe this approach is likely to achieve the IESBA's aims of improving the usability and enforceability of the Code. We consider this to be particularly important in jurisdictions in which the wording of the Code is imported directly into laws and regulations.

In view of the IESBA's stated objectives, we recognise the benefits of issuing the provisions of the Code as International Standard(s) on Ethics. We believe that such a rebranding approach would not preclude the continuing consideration and reference to these standards in totality as the Code of Ethics for Professional Accountants. We consider it helpful to retain reference to a "code", which clearly establishes fundamental principles related to the overarching responsibility of acting in the public interest and which underpins the activities of the accountancy profession as a whole.

In particular, we believe that in the form of a code, the content achieves a cohesive and meaningful approach to addressing professional ethics, supported by the Conceptual Framework, to guide all accounting professionals in discharging their various duties.



We do not consider it necessary to identify specific individuals responsible for compliance with the provisions of the Code in particular circumstances. Instead we recommend an approach similar to that taken by 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*, i.e. to require firms to establish ultimate responsibility at the CEO or Board of Directors level (or equivalent) and to require their delegates to have sufficient and appropriate experience and ability, and the necessary authority, but not to go as far as to attempt to specify responsible individuals.

Please contact Sylvia Smith at +44 20 7694 8871 if you wish to discuss the contents of this letter.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited

## **Appendix A: Response to Specific Questions**

**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?**

We believe that restructuring the Code into three separate components of purpose, requirements, and application and other explanatory material is likely to result in the Code being easier to use and more understandable, in particular, because this approach highlights the requirements more clearly.

We do note, however, that certain content of the Code is more discursive in nature, and this approach may therefore be difficult to apply. For example, Section 300 of the Code does not include any requirements; instead it describes how the conceptual framework contained in Part A applies in certain situations to professional accountants in business. There is a risk that users may overlook this material. However, we believe that this risk may be overcome through use of two-way cross referencing and consistent headings and subheadings. This is aligned to the approach taken in the clarified ISAs, which we consider works well in practice.

We highlight that it would be helpful to consider carefully the placement of specific cross-references in order to distinguish between cross-references which relate to an entire paragraph or section versus those which are particular to a sub-section. As above, we note that the approach taken in the clarified ISAs achieves this. Cross-referencing may be facilitated by an easily navigable electronic version.

**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?**

We consider the approach outlined is likely to facilitate adopting the Code into laws and regulations, in particular, because requirements are clearly identified, accompanied by changes to a more active form of language. We believe this is particularly important in jurisdictions in which the wording of the Code is imported directly into laws and regulations.

We also highlight concerns raised by regulators in terms of their ability to enforce the Code. We therefore support the proposed changes as we believe they represent a significant step to address this issue.

**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 or extant Part B and Part C), as set out in paragraph 20 of the Consultation Paper?**

We believe the division of the Parts of the Code into sections and subsections by topic will facilitate user access to the material set out in the Code, and we support the proposed numbering convention as we believe this will likely support a stable overall structure to the Code over time.

We agree with the Board's proposal to reverse the order of extant Part B and Part C, since accountants in public practice are also accountants in business, i.e. these are not mutually exclusive subsets. In fact the extant Code acknowledges this as it states at paragraph 100.12 that "professional accountants in public practice may also find part C relevant to their particular circumstances". We therefore believe the proposed re-ordering is more logical. For example, extant Part C addresses matters such as employee performance quality, disciplinary procedures, and the establishment of "whistle-blowing" channels, which apply also to professional accountants in public practice.

We consider that to achieve greater clarity the content would be most appropriately ordered such that prohibitions are presented first, to emphasise their importance.

We also recommend that the Board consider the potential overlap and duplication of material once this is re-ordered. For example, 100.010 states that "A professional accountant may be required to resolve a conflict...". Whilst this statement is appropriate as an introduction to the topic, it is an unnecessary duplication as users would already know that a professional accountant is required to resolve a conflict.

**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?**

We recognise the benefits of issuing the provisions of the Code as International Standard(s) on Ethics, given the IESBA's objectives of enhancing the visibility and enforceability of the content of the Code and facilitating its adoption into national laws and regulations.

Such a rebranding approach would not preclude continuing to consider and refer to these standards in totality as the Code of Ethics for Professional Accountants. We consider it helpful to retain reference to a "code", which clearly establishes fundamental principles related to the overarching responsibility of acting in the public interest and which underpins the activities of the accountancy profession as a whole.

In particular, we believe that in the form of a code, the content achieves a cohesive and meaningful approach to addressing professional ethics, supported by the Conceptual Framework, to guide all accounting professionals in discharging their various duties.

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

We are supportive of the suggestions, in particular, the use of plain English text and the rewording of requirements from a passive to an active form. We believe this will facilitate both the understandability and the enforceability of the provision of the Code.

**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?**

We do not believe it is necessary to clarify responsibility in the Code in order to enhance its usability and enforceability. We support the approach taken in paragraph 290.12 of the extant Code as we believe this facilitates the accommodation of differences between size, structure and organisation of firms and the prevailing cultures in which they operate. We recommend that this approach be broadened to address the requirements of the Code for Professional Accountants in Public Practice more generally, in addition to independence.

Notwithstanding the above, we recognise that the Board may intend that the Code stand alone. Therefore, whilst we do not have concerns with the current use of cross-referencing to ISQC 1 and ISAs, we believe that the establishment of more direct requirements for compliance within the Code itself would be an acceptable way of making the Code stand alone, provided that these requirements are fully aligned with ISQC 1.

In establishing such requirements, we do not believe that these need to go as far as the illustration set out in paragraph 30 of the Exposure Draft, by requiring firms to have policies and procedures to enable identification of those individuals responsible for compliance, in order for this to be both used by firms and enforced by regulatory bodies.

Instead, we recommend that the Board adopt an approach similar to that set out in ISQC 1, i.e. to establish ultimate responsibility for compliance at the firm's CEO or managing board of partners (or equivalent) level and to require that their delegates have sufficient and appropriate experience and ability, and the necessary authority, but not to attempt to specify the identity of responsible individuals.

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

We do not consider it necessary to provide such granularity as to responsibility in the Code itself and therefore we find these examples of responsible individuals to be of limited use.

Please see our response above.

**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 note that the Board released an electronic version of the extant Code recently, which we believe is helpful.

It is important that an electronic version of the Code is navigable by users, and that key words or matters are accessible by way of both a logical and clear layout, supported by hyperlinks for ease of movement between sections, and accompanied by effective search functionality to enable users to locate relevant material.

We consider that the proposed restructuring of the Code, including the overall layout, the numbering system and the enhancements to language will support a more effective taxonomy and facilitate the development of an electronic version of the revised Code.

We note that certain issues identified by the IESBA, for example, the grouping together of independence considerations, or the concerns relating to duplication of material if “audit-” and “review-” related content were to be separately identified would be reduced in an electronic environment as users likely would search directly for relevant material.

Indeed, a focus on completeness of material rather than conciseness, and therefore increased duplication of material between sections, with ability to filter by relevance, may become preferable.

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

We consider the indicative timeline to be appropriate. In particular, we are supportive of the proposal to align the timeline with that of the various other projects relating to the Code, as we believe this will improve the effectiveness of overall implementation of changes.

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

We do not have any other significant comments on the matters set out in the Consultation Paper.

The views we express in this response relate to the overall direction of changes proposed by the Board. As a result we have not included suggested improvements relating to the Illustrative Examples set out by the Board as we consider that the purpose of these examples is restricted to demonstrating the application of the proposed changes at this time.