



Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue,
New York 10017

February 3, 2015

Re: IESBA Consultation paper – Improving the structure of the Code of ethics

Dear Mr Siong

Introduction

We¹ appreciate and thank you for the opportunity to provide comments in response to the Consultation Paper (the “CP”) on “Improving the Structure of the Code of Ethics for Professional Accountants” (“the Code”).

We have responded in Appendix 1 to the Board’s request to submit our views on each specific question included in the paper. Appendix 2 provides further illustration of our comments.

Principal comments

We appreciate the Board’s desire to address certain concerns raised by stakeholders, in particular those of regulators, and believe that the broad principles expressed by the Board are sound.

This will be a significant task for the Board and will likely involve considerable time and effort for member bodies (and firms) who will be requested to comment on the detailed exposure draft, to pursue local consultations and amend their local Codes (and perhaps policies). Unless the scope and parameters of such a major redrafting exercise are clearly defined, there is also a significant

¹ This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to “PwC”, “we” and “our” refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

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risk that the project becomes more than a restructuring exercise and opens the door to debates on substantive matters of principle. From our own perspective, we have some doubt about whether such a restructuring will have a significant benefit to our network, and perhaps other large networks. We have already analysed and documented the Code in terms of requirements and supporting guidance. For these reasons, we believe it is important that the Board is comfortable with its cost/benefit analysis of this project, that the scope and parameters of the project are articulated clearly and that the Board obtains the buy-in up front from key regulators that the result will address their concerns.

You will recall that we made some comments in our response to the Board's Strategy and Work Plan regarding the "big picture" issues that the Board should consider. We believe these remain valid. We recommend that the decision to proceed with this project and the basis on which it does so be taken in the light of these broader themes.

While we are broadly supportive of the outline proposals we recognise that implementation will be key to success and we see some challenges. We have some detailed concerns about the proposed structure, given the illustrations, and we provide detailed comments in the Appendices.

Contact

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact David Adair either at david.adair@uk.pwc.com or Tel +44 207 804 2274.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D Adair', written over a horizontal line.

David Adair
Global Independence Leader



Appendix 1

Detailed comments in response to Questions for respondents

- 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 can see a benefit to stakeholders through improving the visibility of the requirements and separating supporting guidance material. Having looked at the illustrative examples, however, we do have some concerns and in places we consider that the text is disjointed and that the restructure makes it more difficult to read the Code and to follow the logic (at least as illustrated). Based on the examples, which we understand are not presented as proposals, we note in particular:

- The Purpose paragraphs do not seem always to play a clear role and the illustrative language does not consistently appear to meet the ambition set out in paragraph 11 of the CP. That paragraph also indicates that the “language is intentionally broad” – we are not clear what this is intended to denote. If retained, we recommend that this paragraph be short and succinct.
- The material is no longer presented in a clear sequential order and at times the flow in the current Code is lost – for example important explanatory material is often not reached until the third component. Adding cross references provides a link but it does not help with a clear and logical read of the material. In a digital world, few may read the Code in a sequential manner, but it is important that the structure reduces the risk that requirements can be read out of the context of the concepts and principles on which they are based.
- There continues to be a lot of repetition of key phrases (for example, reference to “threats to compliance with the fundamental principles” is repeated 9 times between 100.007 and 100.019). Repetition of long phrases detracts from a clear reading. Some short-hand, explained in the “terms”, may be beneficial.
- Including “Matters which may create threats to the fundamental principles but where no specific requirements are called for if sufficient safeguards are available” in “Application and other explanatory material” seems to down-play the importance of this principles-based guidance.

We have illustrated these concerns in relation to two of the example sections in Appendix 2.

If the Board wishes to explore the idea of making the requirements more visible, we think that the understanding of a revised Code could be helped by moving some of the material that has been included in the “Application” component into an improved “Introductory” component. This would aid the flow of the document and help the reader understand the requirements and guidance that follow.

Further simplification and removal of unnecessary repetition would help a reading of the Code.



We also suggest that the Code would benefit from an enhanced contents page with the main topics, such as Financial interests (Section 410), being broken down into its component parts, such as “Interests held as Trustee or Executor”.

- 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 can appreciate that the clearer identification of requirements may make it easier for legislators and regulators and others to adopt and identify in law or regulation those “requirements”. However there are down-sides as indicated in our comments above. The Code it intended to be principles based and the restructure may increase the risk that the requirements may be adopted in regulation without the underlying principles and supporting guidance potentially resulting in incomplete adoption, misunderstanding and misapplication. Further there is a risk that the restructure may move the Code towards rules, even if only in appearance, and we believe this would be unfortunate.

Overall, if the changes make it more difficult to read and understand the Code, implementation and consistent application by users could potentially suffer.

- 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 do not have strong views on the suggested re-ordering of the Code and would support the proposal. It has some logic.

We observe that the proposal to adopt a sequential numbering sequence such as 300, 310, 320 potentially seems not give the Code much room for expansion (unless intermediate number are used) and we suggest that it may be preferable to adopt a sequence like 300, 301 etc, or perhaps 300, 305 etc.

Furthermore, we believe that the proposed numbering could be further simplified by using 300.1 rather than 300.001.

- 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 observe from the preface to the Code that the Code is already a “standard” and is accepted by the profession and accounting firms as a standard. We recognise that the term is not currently used in the name of the Code (the *IESBA Code of Ethics for Professional Accountants*) and so agree that the status of the Code could be enhanced by rebranding the Code as a whole more clearly as a “Standard”. This may help with re-branding of IESBA itself.

We do not recommend that the Standard be further broken down into numerous individual standards as we see little benefit in that.



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

Subject to the comments made in response to other questions, we believe that the suggestions are generally helpful. We believe it is very important to agree on the drafting conventions at the beginning of the project and stick to them, to avoid the scope of the project drifting into substantive changes rather than clarity of the extant Code.

Care must be taken that simplification does not result in inadvertent changes to the meaning of the Code, although lack of clarity or inconsistency could be addressed. In addition, the drafting conventions need to support the separation of requirements from guidance. This means that how the guidance is written is very important. For example, using the active voice, although improving readability, may result in statements in the guidance being assertions that are, however inadvertent, implicit requirements.

The proposed use of bold, blue and underlining for key terms appears somewhat unattractive and may confuse a reader.

Unnecessary repetition should be avoided. The Board should reasonably expect that users will read or be familiar with the whole Code so repetition in each topic is unnecessary and adds to length. For example, repeating key terms in every section in Part IV seems unnecessary.

Sentences should be as short as reasonably possible. In the drafting it would be useful to consider how a term or phrase may be translated into other languages.

We recognise that such a restructuring would be a significant effort for the Board and that this would result eventually in a detailed exposure draft. Whilst the table of concordance is helpful, indeed essential, it does not provide the degree of detail which would allow a quick comparison of the “old” with the “new”. It would be unfortunate if member bodies, firms and others who wish to comment on the future ED each had to re-perform that detailed comparison and so we encourage the Board to provide additional analysis to assist commentators.

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?

From the firm’s perspective we do not see that it is necessary to further clarify responsibility in the Code but we can see that those responsible for enforcing adoption and implementation of the Code may find that useful.

That said, we have no objection to the outline proposal – this should leave the firm with appropriate flexibility and latitude to determine who within the operating structure is responsible for implementation of the requirements, including monitoring of compliance. This will depend on whether the activity is engagement specific or not. There is “no one size that fits all” and this will, to an extent, differ from firm to firm.



We note, however, that this would represent a change in the Code and that this would need to be subject to formal due process.

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

Yes these are appropriate.

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 believe that an electronic version could be helpful to users of the Code. Ideally this should contain an effective search capability and a more detailed contents page.

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

The outline allows nearly two years for the Board to perform its work, to allow for exposure, comments and finalisation. We believe that this should be adequate time for the project although we can envisage that if the responses to this consultation indicate a substantive change in the approach to the restructure this could cause delay.

The paper suggests that the Code would be effective one year later. While we understand that member bodies may wish to align with the revised format of the Code (would this be required?), and firms may wish to amend their internal policy and guidance, on the basis that the intent is not to change the meaning of the Code we are not sure if such a delay is necessary. This may depend, however, on member body obligations.

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

We understand that it is not the intent of this project to change the content of the Code. We believe this is important. There is clearly a risk, however, that moving material around and changing the words can result in an actual or perceived change. To illustrate this, current paragraph 200.14 which refers to “systems and processes” that the client has implemented indicates that these may act as additional safeguards to address a threat. The example revision (300.012/3) has been written such that these systems and processes are portrayed as considerations that may impact the evaluation of the existence or significance of a threat. This, in our view, would be a change in the meaning of the Code.

Further, we can see that the restructure may identify existing material that could be clearer and we would encourage the Board to address any such paragraphs, subject to the foregoing.

We continue to believe that the interrelation of the Code with the ISAs is important and that development of the Code should go hand in hand with the ISAs and that there is internal consistency. We believe it is important that the IAASB is monitoring the project as changes being made to the Code in the redrafting process may have implications for wording that is in the ISAs too. We also encourage the Board to continue to work closely on other developments with the IAASB (such as in relation to NOCLAR and ISQC1).



We are unclear about the likely impact of this project on other projects that the Board is currently undertaking or is planning to undertake (such as that on safeguards). It would be unfortunate if the various projects were not co-ordinated resulting in stakeholders having to comment on various different exposure drafts and there is the added risk of confusion.



Appendix 2

Comments on illustrative examples

1 Section 310 – Professional Appointment

In overall terms the illustration seems more difficult to understand than the current Code which takes the reader through a logical sequence of explaining the threats and the factors that may influence the significance of the threat, and by topic (client acceptance, engagement acceptance etc).

Purpose paragraphs

310.001 and .002 seem repetitive of each other. 310.003 is repetitive of material that is included in section 100 and arguably is redundant here.

The “Purpose of this Section” does not seem to meet the intent. The purpose (if that word is retained) of the section as a whole should be to highlight examples of situations that could threaten compliance with the fundamental principles, to set out specific requirements that relate to changes in appointments (relating to both client and engagement acceptance) and to provide supporting guidance to professional accountants to help them comply with the fundamental principles.

Requirements

A requirement “to evaluate the significance of any threat” does not seem to sit well under a title of “Specific threats related to professional appointments”. These headings may warrant reconsideration.

The current Code clearly differentiates “client” and “engagement” acceptance. Draft 310.004 and .005 seem to confuse these. For example there is no mention of client acceptance in .004. There are distinct issues involved in each and ideally these should be addressed separately. While we acknowledge that there are cross references to the application material, these latter paragraphs come quite a way after the requirements and this seems not to help the logical flow of the discussion.

There is no explanation, even when combined with the guidance in 310.011, of why reliance on the advice or work of an expert could create threats to compliance with the fundamental principles. This would need explaining for the Code to be helpful.

Application and other explanatory material

310.006 – this is the first time that client acceptance is overtly mentioned. “Continuance” is mentioned in the header but not in the following text.

Generally, we question whether having this introductory/explanatory material after the requirements really makes sense.



2 Section 420 – Business relationships

Purpose

We concur that this wording is closer to the intent of this opening components and better explains what the section sets out to cover. That said, 420.002 seems to add little and .003 is also repetitive of earlier material.

Requirements

The Header “Business relationships specifically identified as threats” is not clear to the reader and might better be rephrased as “Business relationship requiring an evaluation of threats” or “Business relationships creating threats to independence”.

Further to place these before those relationships that are “specifically not permitted” does not seem ideal.

Application and other explanatory material

There is no comment or explanation of the threat created by closely held entities (covered in 420.006). This is true of the current Code but the restructure makes this more obvious.

420.008 contains material relating to safeguards which would be useful to the reader at 420.004 (b). This is an example of when splitting out the guidance makes for a more difficult read.