



Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York 10017

May 4th, 2017

Re: IESBA Exposure Draft – Improving the structure of the Code of Ethics for Professional Accountants – Phase 2

Dear Mr Siong

Introduction

We¹ appreciate and thank you for the opportunity to comment on the IESBA’s Exposure Draft (ED) “Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2”

Principal comments

We recognise the substantial amount of work and effort the Board has undertaken on this important project and, subject to a few matters that we discuss in the appendix to our response, believe that the proposed restructuring meets its objectives and applies the agreed drafting conventions.

In response to the specific questions that the Board raised in the ED:

- We do not believe that the proposals in the ED have resulted in any unintended changes in meaning, although we believe that some clarifications are needed as indicted in our comments in the appendix (Question 1).

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.

PricewaterhouseCoopers International Limited
1 Embankment Place
London WC2N 6RH
T: +44 (0)20 7583 5000 / F: +44 (0)20 7822 4652



- We believe that the proposals are consistent with the key elements of the restructuring as described (Question 2). However we note that the structure of some of the sub-sections still do not flow well and that there are some paragraphs, due to separating elements of the extant code, which appear to be stand-alone statements leaving the implications ambiguous. Please see our comments in the appendix.

As requested we have commented separately on the Safeguards related changes in our response to that ED (Question 3).

Effective date (Question 4)

We support the proposals to make the restructured Parts 1, 2 and 3 of the Code effective on a single date (15 June 2019).

We also support:

- the revised provisions relating to long association with audit clients (Section 540) being effective for audits of financial statements commencing on or after December 15th, 2018, and
- the independence provisions (4A) being effective for audits of financial statements commencing on or after June 15th, 2019.

However, we recommend that the Board considers also making the changes to the independence provisions relating to non-audit assurance engagements effective by reference to periods commencing on or after a relevant date (or to at least provide such flexibility where appropriate to the engagement). While we recognise that the changes relating to such engagements are largely conforming/presentational, rather than being of substance, we observe that such engagements can comprise reports on periods of extended length (such as an assurance report on sustainability covering a calendar year) and to make the changes (Part 4B on Independence, and Section 940 on long association) apply on a single date (as proposed - June 15th, 2019 and December 15th, 2018 respectively) could have some unintended consequences when a period under review crosses the relevant date.

Detailed comments

Detailed comments and observations are provided in the appendix. We recognise that some of these comments go beyond “restructuring” but we include them for completeness as the Board may wish to consider the point as it finalises the restructured Code. We also note, given the overlap with the “Safeguards” exposure draft, that some of these comments may be relevant to that project.



Contact

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact Diana Hillier at diana.hillier@pwc.com, or me, at jan.e.mccahey@pwc.com.

Yours sincerely

A handwritten signature in black ink that reads 'Jan McCahey' in a cursive script.

Jan McCahey
Global Regulatory Leader



Appendix

Detailed comments

Paragraph	Comment/observation
200.4	Please see our comments on IESBA’s Exposure Draft “Proposed revisions to clarify the Applicability of the Provisions of the Extant Code to Professional Accountants in Public Practice (PAPP)”.
220.2	<p>A potential “self-review” threat is not mentioned here and given that the section addresses preparation of information we suggest that this may be appropriate, along with guidance.</p> <p>In addition, in comparison to 230.2, for example, this paragraph does not detail the fundamental principles that may be threatened.</p>
220.7 A1	This paragraph states that the professional accountant “is required” to do something but that this is presented as application material as opposed to a requirement. This seems to be guidance to support para 220.1 and as such does not appear to follow the drafting convention. We recommend that the sentence is re-written as guidance.
220.9	<p>This paragraph contains a requirement for the professional accountant to <i>exercise professional judgement to identify and consider ...</i></p> <p>Even with the application material that follows it, the objective of the requirement is not evident and the paragraph could benefit from further explanation regarding the objective.</p>
220.11 A1	The reference to “ <i>Consulting the policies and procedures of the employing organisation</i> ” might more clearly be written as “Following the policies and procedures....”. Consult does not seem like the right word in this context.
230.4 A2	The requirement set out in R230.4 refers to “ <i>expertise</i> ” of the individual but there is no mention of this in the supporting application material. An additional bullet in 230.4 A2 of “Insufficient expertise” seems appropriate.
230.5	It would be helpful to indicate to whom “ <i>the reasons</i> ” might be communicated.
270.1	The inclusion of the words at the end “ <i>created by pressure</i> ” is inconsistent with the approach in other paragraphs such as 230.1.



270.4 (b)	The word “ <i>would</i> ” might be replaced by “could” as this seems more appropriate.
270.4 A2 (4 th bullet)	<p>We suggest that this be re-ordered to read:</p> <p><i>“Pressure from superiors, colleagues or others, for example, to manipulate performance indicators where it can influence their own compensation or other incentives”</i></p> <p>This would be more consistent with the other sub-bullets.</p>
270. 5 A1	The content of this paragraph could be aligned with the parallel 220.13 A2 for greater consistency.
260.7 A1 and A2 (and also 360.7)	These two paragraphs seem out of place sequentially in the natural flow of the section. We suggest that A1 might sit better as part of the introductory material, and A2 might be better as a new 260.4 A3.
Header above 260.9	To assist the reader this could read “Responsibilities of All Professional Accountants”
260.12	<p>This seems a demanding standard placed on the senior PAIB when compared to the parallel 360.10, even though we recognise it is derived from the extant code.</p> <p>We suggest at the very least that the third sub-bullet might better refer to an “assessment of the potential consequences” to be more realistic about the ability of the senior accountants to make such judgements.</p>
R360.16	Should the header preceding this paragraph be in italics?
540.1	<p>We note that this paragraph, and many that follow, starts with a reference to the “firm” (as in “Firms are required to comply with the fundamental principles...”), in contrast to some similar paragraphs that commence with “Professional accountants”.</p> <p>Accordingly, we note that in these cases there is no reference to Professional Accountants. On the basis that Professional Accountants in Public Practice” include firms, we wonder if the lead in should refer, consistently, to “Professional accountants” rather than “firms”?</p> <p>Alternatively, if there is a good reason, Section 110 might explain how these terms are used.</p>



540.6 A1	This paragraph contains, in relation to long association, what is in effect a prohibition/requirement - “the count of years cannot be restarted” - and yet is presented as application material. We believe this is inconsistent with the drafting convention. If the Board believes this has the status of the requirement, then it should presumably be presented as such.
Heading to Section 800	This section potentially applies to an audit of special purpose financial statements (and not to audits of financial statements required by law or regulation). It may be helpful to the reader to make that more prominent by amending the heading to: <i>Reports on special purpose financial statements that include a restriction on use and distribution</i>
800.2 (and others) 999.2 (and others)	This paragraph and a number of others refer to allowing “modifications to Part 4A (<u>excluding this section</u>)”. While we understand that the intent of the underlined word is in effect to exclude modifications to Section 800 itself, we find this confusing and circular. We suggest that this phrase “excluding this section” be deleted wherever used as the Section is clearer without this.
Heading above 910.10	This sub-section is headed “Financial interests received unintentionally”. The word “unintentionally” does not seem to sit well and given that this word is not used in the actual requirement that follows we suggest that the heading would be adequate without it.
924.5 A1	This is a difficult paragraph to read. The inclusion of “and does not continue to participate in the firm’s business or professional activities” is confusing and unnecessary since this is already established as a requirement in the prior “Requirement”. We suggest that these words be deleted.