

## RESTRUCTURING THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

Three years ago, the IESBA began researching the issues concerning the structure of the *Code of Ethics for Professional Accountants* (the Code). This was in response to stakeholder concerns that aspects of the Code's structure were affecting its usability, thereby potentially adversely impacting its adoption, implementation and enforcement. Based on the research findings, including outreach to stakeholders, the IESBA launched in April 2014 a project to restructure the Code (the Structure project). In November 2014, the IESBA issued a [Consultation Paper](#) to seek input from stakeholders on approaches that could be taken to improve the Code's usability (including its clarity and understandability) by revising its structure.

This communication provides an update on the progress achieved on the Structure project to date. It explains how the IESBA plans to coordinate the restructuring effort with the various other projects currently on its agenda and when the IESBA anticipates completing the restructuring of the Code. This update also highlights a number of implementation considerations for national standards setters, IFAC member bodies and firms as the IESBA progresses this important initiative.

The IESBA is working diligently to complete the various projects on its agenda in as timely a manner as resources permit and within the requirements of due process. This effort includes aligning new or revised provisions currently being developed under the various projects with the proposed new structure and drafting conventions (the Structure format). While this update includes indicative timing for specific milestones in the restructuring effort, dates are tentative and are subject to change without notice, depending on the progress of the IESBA's deliberations on the various projects.

### Current Status and Plan for Coordination

In approving a first [Exposure Draft \(ED\)](#) representing Phase 1 of the Structure project in December 2015, the IESBA reached an important milestone in the project. This ED represents the first concrete application of the proposed new Structure format which has been developed and refined taking into account stakeholder feedback on the Consultation Paper. The scope of the ED encompasses extant Parts A<sup>1</sup> and B<sup>2</sup> of the Code, excluding:

- The provisions relating to (a) safeguards, (b) the description and application of the conceptual framework, and (c) independence with respect to the provision of non-assurance services (NAS) in extant Section 290<sup>3</sup> (these are being addressed under the Safeguards project);

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<sup>1</sup> Extant Part A, *General Application of the Code*

<sup>2</sup> Extant Part B, *Professional Accountants in Public Practice*

<sup>3</sup> Extant Section 290, *Independence – Audit and Review Engagements*

- The provisions addressing reports that include a restriction on use and distribution in extant Section 290;<sup>4</sup> and
- Extant Section 291.<sup>5</sup>

Concurrently with the work on the Structure project, the IESBA has been progressing the other projects on its agenda, namely:

- A project to review the clarity, appropriateness and effectiveness of safeguards in the Code (Safeguards project);
- A project regarding responding to non-compliance with laws and regulations (NOCLAR project);
- A project to review the long association provisions in Section 290 of the Code (Long Association project); and
- A project to review extant Part C of the Code (Part C project,<sup>6</sup> Phases 1 and 2).

Of particular importance from the perspective of coordination with the Structure project is the Safeguards project. Safeguards are an important part of the Code's conceptual framework. Given the pervasiveness of safeguards throughout the Code, the IESBA determined that it would be important to coordinate the work on, and timing of, the Structure and Safeguards projects.

Informed by its deliberation of the initial issues in the Safeguards project, and in light of the fact that the IESBA had only launched the project in January 2015, the IESBA determined in the latter part of 2015 that it would be necessary to split that project into two separate phases<sup>7</sup> to avoid undue delay in the Structure project. Accordingly, the IESBA has issued the [Safeguards Phase 1 ED](#), drafted using the Structure format, contemporaneously with the Structure Phase 1 ED.

In the first half of 2016, the IESBA plans to dedicate a heavy focus on addressing the issues in the second phase of the Safeguards project with a view to approving the Phase 2 ED at its September 2016 meeting. The IESBA therefore determined to align the timing of approval of the Structure Phase 2 ED with that for the Safeguards Phase 2 ED.

The IESBA expects that the Structure Phase 2 ED will cover the provisions addressing reports that include a restriction on use and distribution in extant Section 290, extant Section 291, and the proposed restructured provisions arising from the NOCLAR,<sup>8</sup> Long Association and Part C Phase 1 projects. Work on restructuring the provisions addressing reports that include a restriction on use and distribution in extant Section 290 as well as extant Section 291 has been proceeding in the background even as the IESBA has been deliberating drafts of the Structure Phase 1 ED.

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<sup>4</sup> Extant paragraphs 290.500 – 290.514

<sup>5</sup> Extant Section 291, *Independence – Other Assurance Engagements*

<sup>6</sup> References to Part C in this publication are to the extant Part C of the Code, which addresses professional accountants in business (PAIBs).

<sup>7</sup> For an explanation of the scope of Phases 1 and 2 of the Safeguards project, see the explanatory memorandum to the [Safeguards Phase 1 ED](#).

<sup>8</sup> Approval of the final NOCLAR provisions is anticipated at the March 2016 IESBA meeting. The IESBA has determined that these should be released under the current structure and drafting conventions at the earliest opportunity, subject to approval of due process by the Public Interest Oversight Board (PIOB). The IESBA will then proceed to restructure the final provisions using the Structure format.

The Structure and Safeguards Task Forces will be liaising closely on the NAS provisions in extant Section 290 as these are being reviewed and potentially revised. More generally, there will be close liaison between the Structure Task Force and the other project Task Forces as the latter restructure their new or revised sections of the Code using the Structure format.

The IESBA anticipates that stakeholder feedback on the Structure Phase 1 ED will enable it to refine the Structure format as necessary so that by the end of Q2 2016, it will have finalized the Structure format. Any refinements to the Structure format will then be applied to the restructuring proposals on Structure Phase 2 and the other work streams before these are approved for exposure.

The IESBA is currently at an early stage in exploring the issues in Phase 2 of the Part C project. Accordingly, the IESBA determined that this phase of the project can proceed as a separate work stream with a timeline that need not be aligned with the Structure project's timeline. However, any proposed revisions to the relevant section(s) of the Code under this phase will be drafted using the Structure format.

The Appendix illustrates the IESBA's anticipated timelines for the various work streams. Subject to the progress of its deliberations and barring any unforeseen circumstances, the IESBA anticipates approval of the final restructured Code (including the new or revised provisions on Safeguards, NOCLAR, Long Association and Part C Phase 1, but excluding Part C Phase 2) by Q3 2017.

## **Implementation Considerations**

The IESBA is mindful of stakeholder concern about piecemeal changes to the Code that increase the burden of adoption and implementation, including translation effort. Accordingly, the IESBA will aim to issue the restructured Code with a common effective date unless particular circumstances justify otherwise. The IESBA will determine and communicate the effective date of the restructured Code (excluding Part C Phase 2) when it approves the restructured text.

It is important that all those with responsibility for adoption and implementation activities consider the upcoming changes as early as practicable. National standards setters, IFAC member bodies, firms and others involved in those activities have been following the development of the Structure project and the other projects on the IESBA's agenda, and contributing to the process by commenting on Consultation Papers and Exposure Drafts. They will, therefore, be well placed to consider appropriate plans that maximize the implementation period for their relevant constituencies. IFAC member bodies and firms will in particular want to consider what continuing professional development courses or other training materials need to be developed. Firms will also need to consider appropriate approaches to align their policies and procedures to the restructured Code.

The IESBA will release the final restructured Code after completion of phase 2 of the Structure project and following approval of due process by the PIOB. To facilitate an early start to translation and other implementation activities, however, the IESBA will make the Structure Phase 1 text available on its website as soon as the IESBA approves the text (currently anticipated by December 2016). In addition, the IESBA will make the close-off documents<sup>9</sup> on the NOCLAR, Long Association and Part C Phase 1 projects available on its website as soon as practicable to assist training, awareness raising and other implementation-related activities.

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<sup>9</sup> Final new or revised provisions approved under the current structure and drafting conventions

**The IESBA strongly cautions against delay in considering implementation issues, and encourages national standards setters, IFAC member bodies, firms and other stakeholders to contribute actively to the development of the restructured Code by providing feedback on current and upcoming Exposure Drafts.**

**IESBA Timetable—Structure-Related Work Streams (as of December 2015)<sup>10</sup>**

**Q1 – Q4 2016**

Work Streams		Mar 2016	Jun 2016		Sep 2016	Dec 2016
NOCLAR	<b>March 2016 IESBA CAG Meeting</b>	Approve close-off <sup>11</sup> First read ED of restructured text	Second read ED of restructured text	<b>Sept 2016 IESBA CAG Meeting</b>	Approve ED restructured text	
Long Association		First read preliminary restructured text	Full review re-ED responses; second read preliminary restructured text		Approve close-off Approve ED restructured text	
Structure Phase 1			Full review ED 1 responses		First-read post-ED	Approve Phase 1 text <sup>12</sup>
Structure Phase 2		First read ED 2	Second read ED 2		Approve ED 2	
Safeguards Phase 1			Full review ED 1 responses		First-read post-ED	Approve Phase 1 text
Safeguards Phase 2		First read Tranche 1 ED 2	Second read Tranche 1 and first read Tranche 2 ED 2		Approve ED 2	
Part C Phase 1		First read ED of restructured text	Approve ED restructured text <sup>13</sup>			
Part C Phase 2		Issues	Issues		First read	Approve ED

<sup>10</sup> This project timetable is tentative and subject to change depending on the progress of the various work streams.

<sup>11</sup> Approval of the final NOCLAR provisions is anticipated at the March 2016 IESBA meeting. The IESBA has determined that these should be released under the current structure and drafting conventions at the earliest opportunity, subject to approval of due process by the Public Interest Oversight Board (PIOB). The IESBA will then proceed to restructure the final provisions using the Structure format.

<sup>12</sup> Subject to any changes that may be necessary arising from completion of Safeguards Phase 2

<sup>13</sup> ED of Part C Phase 1 restructured text to be included as part of Structure ED 2

**Q1 – Q4 2017**

Work Streams		Mar 2017	Jun 2017		Sep 2017	Dec 2017
NOCLAR	<b>March 2017 IESBA CAG Meeting</b>	Full review ED comments	Approve final restructured text	<b>Sept 2017 IESBA CAG Meeting</b>		
Long Association		Full review ED comments	Approve final restructured text			
Structure Phase 2		Full review ED comments	First read post-ED		Approve Phase 2 restructured text	
Safeguards Phase 2		Full review ED comments	First read post-ED		Approve final	
Part C Phase 1		Full review ED comments	Approve final restructured text			
Part C Phase 2					Full review ED comments	First read post-ED

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## About the IESBA

The [International Ethics Standards Board for Accountants](#) (IESBA) is an independent standard-setting board that develops and issues high-quality ethics standards and other pronouncements for professional accountants worldwide. Through its activities, the IESBA develops the *Code of Ethics for Professional Accountants*, which establishes ethical requirements for professional accountants.

The objective of the IESBA is to serve the public interest by setting high-quality ethics standards for professional accountants and by facilitating the convergence of international and national ethics standards, including auditor independence requirements, through the development of a robust, internationally appropriate code of ethics.

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants (IFAC).

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