

Basis for Conclusions
Prepared by the Staff of the IESBA®
April 2018

*International Ethics Standards Board
for Accountants®*

Improving the Structure of the Code of Ethics for Professional Accountants



International
Ethics Standards
Board for Accountants®

This document was prepared by the Staff of the International Ethics Standards Board for Accountants (IESBA).

The IESBA is a global independent standard-setting board. Its objective is to serve the public interest by setting high-quality ethics standards for professional accountants worldwide and by facilitating the convergence of international and national ethics standards, including auditor independence requirements, through the development of a robust *International Code of Ethics for Professional Accountants™* (including *International Independence Standards™*) (the Code).

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**BASIS FOR CONCLUSIONS:
IMPROVING THE STRUCTURE OF THE CODE OF ETHICS FOR
PROFESSIONAL ACCOUNTANTS**

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I. Introduction

1. It is in the public interest that the Code is understandable and usable. The IESBA has in the past received feedback on the clarity and usability of the extant Code. For example, small and medium practices (SMPs) have indicated that the biggest barrier faced in fully adhering to the Code is in understanding its requirements. Other stakeholders have also commented about difficulties in translating or understanding the complex and long sentences of the extant Code. Some regulators and audit oversight bodies have questioned the enforceability of some of its provisions.
2. The IESBA's research findings indicated a broad-based appetite for change, with widespread support for increasing the visibility of the requirements and clarifying the language used in the Code. The IESBA therefore approved a project in 2014 to enhance the clarity and usability of the extant Code. The IESBA intends that the restructuring of the Code will facilitate its adoption, more effective implementation and consistent application, and better enforcement. Whilst restructuring the Code, the IESBA was careful not to inadvertently change the meaning of the Code or weaken it.
3. At its December 2017 meeting, the IESBA approved the final text of the restructured Code with the affirmative votes of 16 out of 16 members present. The restructured Code includes:
 - (a) Structural and drafting enhancements developed under the Structure of the Code (Structure) project;
 - (b) Revisions to the provisions pertaining to safeguards in the Code, including enhancements to the conceptual framework, developed under the Safeguards project;
 - (c) Revisions to clarify the applicability of the provisions in Part C¹ of the extant Code to professional accountants in public practice (PAPPs), developed under the Applicability project;² and
 - (d) New application material relating to professional skepticism and professional judgment, developed under the Professional Skepticism (short-term) project.³
4. As is further discussed in paragraph 11 below, the restructured Code includes restructured texts of significant recent revisions to several sections of the extant Code addressing non-compliance with laws and regulations (NOCLAR), long association (LA) and issues relating to professional accountants in business (PAIBs).
5. The provisions relating to inducements are being revised as part of a separate project. The IESBA expects to finalize these revised provisions in June 2018. As indicated in the [Basis for Conclusions for the Applicability project](#), the IESBA intends the revised inducements provisions to have the same effective date as that of the restructured Code.
6. This Basis for Conclusions relates to, but does not form part of the restructured Code, [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#). This document summarizes the key structural and drafting enhancements made to the extant Code and explains how the IESBA has addressed the significant matters raised on exposure. Separate Basis for Conclusions documents are available on the IESBA's website to explain the IESBA's rationale in

¹ Extant Part C – Professional Accountants in Business

² Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, Section 120, *The Conceptual Framework*, paragraph R120.4; and Part 3 – Professional Accountants in Public Practice, Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*, paragraphs R300.5 to 300.5 A1

³ Part 1, Section 120, paragraphs 120.5 A1, 120.5 A2 and 120.13 A1 to 120.13 A2

finalizing the revisions developed under the [Safeguards, Applicability, and Professional Skepticism](#) (short term) projects.

II. Background

7. The IESBA initially issued a [Consultation Paper](#) (the CP) in November 2014 seeking input from stakeholders on approaches that could be taken to improve the Code's usability by revising its structure. Informed by the feedback from [fifty-seven comment letters](#) received in response to the CP, the IESBA progressed the project in two phases with two exposure drafts.

Phase 1

8. Phase 1 of the project involved establishing new structure and drafting conventions for the Code and restructuring the text of Part A⁴ and most of Part B⁵ of the extant Code.⁶ The Phase 1 proposals were released in December 2015 in the Exposure Draft [Improving the Structure of the Code of Ethics for Professional Accountants - Phase 1](#) (Structure ED-1), which also included a proposed Guide to the Code.
9. [Fifty comment letters](#) were received from various respondents on Structure ED-1. Respondents included regulators and audit oversight authorities, national standard setters (NSS), firms, public sector organizations, preparers, IFAC member bodies and other professional organizations. There was general support for the proposals, as well as detailed suggestions for refinements and other comments. In particular, there was widespread support for the key features of the restructuring, including an enhanced focus on the fundamental principles, requirements distinguished from application material, enhanced clarity and improved usability. Respondents, including representatives of the SMP community, appreciated the improvements in terms of the understandability and usability of the Code.
10. The IESBA considered comments on Structure ED-1 during its June–December 2016 meetings and, taking into account respondents' feedback as well as feedback from its Consultative Advisory Group (CAG), agreed in principle the text of Phase 1 of the project in December 2016. A staff-prepared document, [Basis for Agreement in Principle for Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1](#) was released in January 2017 in conjunction with the agreed-in-principle text to summarize and explain the rationale for the IESBA's conclusions in Phase 1 of the project.

Phase 2

11. The proposals relating to Phase 2 of the project were released in January 2017 in the Exposure Draft [Improving the Structure of the Code of Ethics for Professional Accountants—Phase 2](#) (Structure ED-2) with a comment deadline of May 25, 2017. Phase 2 of the project involved restructuring the remainder of the extant Code, including:

⁴ Extant Part A – *General Application of the Code*

⁵ Extant Part B – *Professional Accountants in Public Practice*, Sections 200 to 290 (excluding paragraphs 290.500 to 290.514, *Reports that Include a Restriction on Use and Distribution*)

⁶ The extant Code as used in this document refers to the provisions in the 2016 IESBA Handbook of the *Code of Ethics for Professional Accountants* as revised by the final provisions arising the IESBA's NOCLAR, Revision of Part C of the Code and Long Association projects.

- Remaining provisions in extant Part B that were not included under Phase 1 of the project.⁷
 - Provisions in extant Part C, as revised in the March 2016 [Close-off document](#)⁸ for Phase 1 of the Part C project addressing PAIBs.
 - The July 2016 pronouncement and related conforming amendments regarding [NOCLAR](#).
 - The January 2017 [Close-off Document](#) arising from the Long Association project, *Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*.
12. The IESBA received [forty comment letters](#) from various stakeholders on Structure ED-2, widely supporting the Phase 2 proposals. Respondents provided useful feedback to further improve the restructuring of the Code, including wording suggestions to increase consistency and avoid inadvertent changes in meaning.
13. Taking into account this feedback and the input of its CAG, the IESBA refined its Phase 2 proposals to address significant matters raised. In some cases, the IESBA determined it necessary to further refine its Phase 1 proposals to ensure consistency in the drafting approach used for restructuring the Code as a whole.

III. Key Elements of the Restructuring

14. Key elements of the restructuring include:
- (a) Increasing the prominence of the requirement to comply with the fundamental principles, be independent, where applicable, and apply the conceptual framework;
 - (b) Emphasizing that compliance with the fundamental principles and, where applicable, being independent, are the overarching requirements in the Code;
 - (c) Distinguishing requirements (paragraphs identified with an “R”) from application material (paragraphs identified with an “A”);
 - (d) Increasing clarity of responsibility, in particular in relation to independence; and
 - (e) Increasing clarity of language to improve readability and understandability including: simpler and shorter sentences; simplifying complex grammatical structures and avoiding legalistic and archaic terms.
15. Additional aspects of the restructuring are as follows:
- Improving the navigability of the Code, including adding a *Guide to the Code*.
 - Organizing the material into more self-contained sections and subsections so that:
 - Each Section has its own introduction to provide an overview and context, including threats that might exist, and reminders of the requirement to comply with the

⁷ These include provisions relating to restricted use reports in extant Part B, Section 290, *Independence – Audit and Review Engagements* and the entirety of extant Section 291, *Independence – Other Assurance Engagements* as revised by the Long Association and Safeguards projects.

⁸ A “close-off document” refers to new or revised provisions developed under the extant structure and drafting conventions. As part of the project, restructuring changes were made to these new and revised provisions to reflect the new structure and drafting convention for the Code. The new and revised provisions in the restructured Code also reflect conforming amendments arising from the Safeguards projects as applicable.

fundamental principles, be independent, where applicable, and apply the conceptual framework; and

- Revised numbering for clarity and to facilitate future revisions.
 - Reorganizing the Code to take advantage of forthcoming electronic features.
 - Re-ordering of extant Parts B and C to recognize the relevance of the material applicable to PAIBs to PAPPs in certain circumstances.
 - Enhancing the Glossary.
 - Changing the Code's title to emphasize its international application and the enforceability of the provisions pertaining to independence (the *International Independence Standards*).⁹
16. The IESBA has placed most definitions and descriptions in the Glossary. A term is included in the Glossary based on whether it is essential to the understanding of the Code. Certain important concepts are repeated within the main body of the restructured Code as well as being set out in the Glossary. The IESBA has also added lists of abbreviations and standards referred to in the Code. The list of standards includes the titles of the standards referred to in the restructured Code. Except in paragraphs where terms are defined or described, only the abbreviations are used in the body of the restructured Code.

IV. The Fundamental Principles, Independence and the Conceptual Framework

Overarching Requirements versus Ethical Outcomes

17. In restructuring the extant Code, the IESBA sought to clarify and increase the prominence of the overarching requirements to comply with the fundamental principles, be independent when applicable, and apply a more robust conceptual framework approach.
18. Respondents generally agreed with the IESBA's proposals. However, a regulatory respondent, while agreeing with the IESBA's proposed approach to emphasize the overarching requirements, considered that the proposals did not go far enough in setting out "ethical outcomes" for the professional accountant. The respondent felt that:
- There was an absence of a clear linkage between the fundamental principles and the detailed requirements;
 - There should be more clarity and emphasis of the centrality of the fundamental principles; and
 - An explicit linkage should be established between the conceptual framework and detailed requirements so that it is clearer how the requirements meet the ethical outcomes in each section.
19. Respondents were supportive of increasing the prominence of independence in the conceptual framework. A respondent to Structure ED-2 suggested:
- Elevating paragraph 120.12 A1 to a requirement so that it highlights the importance of independence in relation to audits, reviews or other assurance engagements.

⁹ The independence sections in the restructured Code are included in the *International Independence Standards*, which comprise Part 4A – *Independence for Audit and Review Engagements* (i.e., Sections 400 to 899) and Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements* (i.e., Sections 900 to 999).

- Removing the description of independence from Section 120 in Part 1 because it duplicates material in the International Independence Standards in Sections 400¹⁰ and 900¹¹ of the restructured Code.

IESBA Decisions

20. Taking into account the input from respondents, the IESBA determined to (a) increase the prominence of the requirements to comply with the fundamental principles, be independent when applicable, and apply the conceptual framework in the general sections of the Code (i.e., Sections 120, 200, 300,¹² 400 and 900), and (b) emphasize them in the introductory paragraphs of the remaining sections in the restructured Code.
21. The IESBA also added explanatory material to the “How to Use the Code” section of the *Guide to the Code* to emphasize this. The IESBA noted that consideration of whether additional outcomes are needed are beyond the scope of the project.
22. The new application material in paragraphs 120.12 A1-120.12 A2 under the section heading *Considerations for Audits, Reviews and Other Assurance Engagements* in Section 120:
 - Gives greater prominence to the overarching requirement for PAPPs to be independent when providing audit and assurance services and enhances the linkage between independence and the conceptual framework.
 - Explains the interaction between the fundamental principles and the independence sections relative to the PA’s responsibility to apply the provisions in the conceptual framework to maintain independence. To provide adequate context, this new application material repeats the description of independence that is included in Parts 4A and 4B of the restructured Code.
23. The IESBA considered suggestions for having requirements relating to independence in Section 120, but determined that it would be more appropriate for independence provisions to be more prominently positioned in standalone Parts 4A and 4B of the restructured Code. The IESBA determined that the provisions included in Section 120 should be the more general provisions that apply in all circumstances.

Requirement to Apply the Conceptual Framework

24. Structure ED-1 emphasized the requirement to apply conceptual framework by repeating the requirement on each page of the proposed texts.
25. Respondents provided a clear steer that the emphasis of the provisions in the Code should be on the requirement to comply with the fundamental principles and, where appropriate, be independent. Respondents noted that while the provisions in the conceptual framework are important, the IESBA should emphasize the objectives of the Code instead of the process.
26. Respondents to Structure ED-2 also made a number of comments and suggestions as follows on the introductory paragraphs:
 - They are neither requirements nor application material and, as such, might be ignored.

¹⁰ Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

¹¹ Part 4B, Section 900, *Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audit and Review Engagements*

¹² Part 3, Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

- They make the Code too long and should not repeat the Part 1 requirement to comply with the fundamental principles and apply the conceptual framework.
- In some sections, there is a general reference to the fundamental principles, while in others there are references to specific fundamental principles. Accordingly, there is a question as to whether the relevant fundamental principles should be explicitly spelled out.
- There is a question as to whether a reference to the fundamental principles, in addition to independence, in proposed Sections 540,¹³ 800,¹⁴ 905¹⁵ and 907¹⁶ is appropriate.
- Clear and consistent wording should be used regarding the content of those introductory paragraphs to avoid confusion.
- The subsections in Section 600¹⁷ are too repetitive and paragraphs should be combined and cross references used to save length.

IESBA Decisions

27. In response to feedback from respondents on Phase 1 of the project, and in completing Phase 2, the IESBA determined to delete the proposed requirement relating to applying the conceptual framework from each page of the Code and instead emphasize it in the introductory paragraphs of the remaining sections in the restructured Code.
28. The restructured Code has four self-contained Parts (i.e., Parts 1, 2, 3 and the International Independence Standards in Parts 4A and 4B). Each part also includes various sections to address specific topics. In the case of Sections 110 and 600 there also subsections to focus on more specific topics. To overcome the risk that some PAs might not make the necessary connection between the provisions in Parts 2, 3, 4A and 4B of the restructured Code and those in the conceptual framework set out in Section 120 in Part 1, the IESBA determined to include an overarching requirement to comply with the fundamental principles, be independent when applicable, and apply the conceptual framework in Sections 200, 300, 400 and 900. In addition, a reference to the provisions in Section 120 is included in the introductory section of each Section of the restructured Code. The IESBA is of the view that this approach, together with the new application material in paragraph 120.3 A1, will serve to guide users' navigation of the provisions in the Code and also remind them of the importance of applying the provisions in the conceptual framework.
29. The IESBA is of the view that in some cases, repetition of material is important to emphasize that Sections cannot be read in isolation, in order to reduce the risk of overlooking the Sections that contain overarching requirements for applying the conceptual framework. In finalizing the restructured Code, limited revisions were made to the agreed-in-principle text to streamline the introductory paragraphs across the various sections in the Code and for greater consistency.
30. The *Guide to the Code* has also been revised to clarify how the various parts of the restructured Code interact with each other and to emphasize PAs' responsibility to apply the conceptual framework set out in Section 120.

¹³ Part 4A, Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*

¹⁴ Part 4A, Section 800, *Reports on Special Purpose Financial Statements that Include a Restriction on Use and Distribution (Audit and Review Engagements)*

¹⁵ Part 4B, Section 905, *Fees*

¹⁶ Part 4B, Section 907, *Actual or Threatened Litigation*

¹⁷ Part 4A, Section 600, *Provision of Non-assurance Services to an Audit Client*

Disproportionate Outcomes and Conflict Resolution

31. A respondent to Structure ED-2, a Monitoring Group member, suggested that when paragraphs 100.3 A2¹⁸ and 110.2 A3¹⁹ of the agreed-in-principle text for Phase 1 are read together, they might imply that the PA could decide not to apply specific provisions of the Code. In addition, this respondent also commented that paragraph 110.2 A2 regarding exceptions, should only apply in the context of conflicts of interest.

IESBA Decisions

32. The IESBA reaffirmed its view that paragraphs 100.3 A2 and 110.2 A3 do not permit an exception to the Code. Rather, they specify an encouragement to consult to obtain advice. These paragraphs reflect material in the extant Code.
33. The IESBA reconfirmed that the wording of paragraph 110.2 A2 reflected its view of what the extant Code intended to cover. The extant Code does not intend this provision to apply only in the context of conflicts of interest but rather more generally to resolving a conflict in complying with the fundamental principles.

V. Requirements

Ordering of Requirements and Application Material

34. While the restructured Code maintains the extant Code's principles-based approach, its new structure distinguishes requirements from application material, thereby giving more prominence to the prohibitions in the Code.
35. Reacting to the proposals in Structure ED-2, some respondents commented on a perception that the restructured Code is more rules-based. Those respondents were concerned that the Code should not be structured in a way that might imply that specific requirements could be applied without consideration of the overarching requirements.

IESBA Decisions

36. The IESBA has retained a principles-based approach. The restructured Code is drafted in a manner that better illustrates the Code's scalability, by giving greater prominence to the overarching requirement to comply with the fundamental principles, be independent when applicable, and apply the conceptual framework. It emphasizes overarching requirements in addition to specific requirements.
37. The IESBA reaffirmed the order of the requirements and application material within each section of the restructured Code as follows:
- General requirements and application material related to applying the conceptual framework are set out first, followed by specific requirements.
 - Recognizing the need for scalability, requirements that apply to firms when providing professional services to public interest entities (PIEs) are located after requirements that apply to other entities.

¹⁸ Part 1, Section 100, *Complying with the Code*

¹⁹ Part 1, Section 110, *The Fundamental Principles*

- Application material that is specific to a particular requirement follows the related requirement as closely as possible.

Referring to Application Material in Requirement Paragraphs

38. In response to Structure ED-2, some respondents raised concerns that certain requirements expressly referenced application material. They felt that referring to application material in the requirement paragraphs of the Code might result in blurring the distinction between requirements and application material.

IESBA Decisions

39. The IESBA agreed, with very few specific exceptions, that requirements should not make cross references to application material because requirements should be self-contained.
40. The IESBA reviewed the texts and maintained the distinction between requirements and guidance. With regard to paragraphs R800.11 and R800.13, the IESBA considered that these paragraphs are very specific provisions where it is helpful to use a modified reference to the application material to summarize the text so that users of the Code can see how the modifications work, rather than repeat the description.

Requirements and Exceptions

41. The IESBA reaffirmed its view that exceptions are:
- Located as close as possible to the related requirement, with only necessary application material in between.
 - Linked to the requirement to which they pertain by using the phrase “as an exception to”.

Where there is an exception to a requirement, that requirement is linked to the exception by use of the phrase “subject to”.

VI. Clarity of Responsibility for Compliance with the Code

Responsibility for Compliance with the Independence Provisions

42. The IESBA notes that the International Auditing and Assurance Standards Board’s (IAASB’s) extant ISQC 1²⁰ establishes leadership responsibility for quality control, and includes relevant ethical requirements as an element of a system of quality control. As part of its restructuring efforts in Phase 1 of the project, which involved reducing the use of the passive voice and retaining the extant Code’s reference to ISQC 1 in relation to describing responsibilities for compliance with independence provisions, the IESBA determined to emphasize the relevant material in ISQC 1 in the agreed-in-principle text.
43. Respondents to Structure ED-2 supported the reduced use of the passive voice in the Code and the continued reference to ISQC 1. Many supported the use of the word “firm” for ease of reference. A few respondents commented that further work was necessary to clarify firm responsibilities with respect to independence. Among other matters, the following were suggested:

²⁰ 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*

- Adding in Section 120 an explanation of the approach to deal with responsibility as set out in Section 400.
- Addressing senior management's responsibility for an ethical mindset within the organization.
- Recognizing that some requirements apply only to individuals.
- That definitions in ISQC 1 should be adopted in the restructured Code.

IESBA Decisions

44. The IESBA reaffirmed its view that the Code should refer to ISQC 1 and agreed to retain the following material in paragraph 400.4 of the restructured Code:

“...ISQC 1 requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, (including network firm personnel), maintain independence where required by relevant ethics requirements.... Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference....”

45. The IESBA also:
- (a) Determined to focus on addressing gaps in the Code relating to topics and issues that are located in the Code rather than duplicating matters that are addressed in other authoritative literature;
 - (b) Agreed not to change the new application material relating to independence in Section 120 because it is intended to refer to, but not replicate, the material in Section 400; and
 - (c) Reaffirmed that all individual PAPPs and their firms are subject to the independence provisions in Parts 4A and 4B of the restructured Code (see paragraphs 400.4 and 900.3).
46. The IESBA notes that the IAASB has a current project to revise ISQC 1 and is committed to continuing its liaison and coordination activities with the IAASB in this regard.

Use of “Firm” Versus “Network Firm”

47. In many cases, the extant Code does not distinguish “network firm” from “firm”. Instead, it encompasses both in references to the term “firm.” As part of Phase 1 of the project, the IESBA agreed in principle that for greater clarity, the restructured Code will distinguish “network firm” where appropriate.
48. Some respondents to Structure ED-2 commented that the word “firm” was not consistently accompanied by the term “network firm” where this seemed appropriate. For example, some commented on, and made drafting suggestions with regard to, the differentiation between “firm” and “network firm” in Section 600. While agreeing that the differentiation would make the responsibilities clearer, a respondent commented that certain paragraphs seemed to have omitted reference to network firms as some of the requirements referred to both “firm” and “network firm” whereas other paragraphs only referred to the “firm.” The respondents felt that this was inconsistent and might be confusing.

IESBA Decision

49. The IESBA agreed to retain the approach used in Phase 1 of the project in relation to the use of “firm” versus “network firm.” Based on a review of the references to the words “firm” and “network firm” in the proposed texts in Structure ED-2 and the Phase 2 Exposure Draft under the Safeguards project (Safeguards ED-2), the IESBA determined to make some revisions in order to achieve consistency, particularly in relation to the independence provisions in Sections 540 and 600.

Client Relationship Partner

50. In relation to the prohibition on an individual acting as “client relationship partner” for the firm during the cooling-off period referred to in the long association section, the IESBA deliberated whether a presumption that “firm” includes “network firm” should apply.

IESBA Decision

51. The IESBA agreed that the scope of the prohibition explicitly encompasses network firms on the grounds that the concept of “firm” in the extant Code is pre-defined to include a network firm. Changes were therefore made to paragraphs R540.20(c) and 540.20 A1 to make this clear.

Communication of Non-compliance in Group Audit Situations

52. In relation to requirements relating to communication of non-compliance or suspected non-compliance with laws and regulations in group audit situations, the IESBA deliberated whether the requirements extend to communicating to firms that are not part of the same network.²¹ Specifically, in the case of the audit of a component, paragraph R360.16(b) requires the engagement partner at the component level to communicate the matter to the group engagement partner when the audit of the component’s financial statements is being performed for purposes other than the group audit. Respondents to Structure ED-2 commented that it was not clear whether this would include components subject to audit by a firm or network that is different from that of the group engagement partner’s firm or network.

IESBA Decision

53. The IESBA agreed to clarify that the communication of the matter to the group engagement partner applies regardless of whether the group engagement partner’s firm or network is the same as that of the PA making the communication (see paragraph 360.16 A1).

VII. Readability Including Clarity of Language**Use of “May” versus “Might”**

54. In the extant Code, the term “may” can denote both a permission and a possibility. In finalizing the agreed-in-principle text for Phase 1 of the project, the IESBA gave detailed consideration to the use of the words “may” and “might” in the context of the Code. To minimize the risk of ambiguity and confusion through inconsistent use of those words, the IESBA agreed that:
- The word “may” should be used in the Code only to refer to circumstances where PAs are being granted specific *permission* to take a particular action, including as an exception to a requirement.

²¹ See Part 3, Section 360, *Responding to Non-Compliance with Laws and Regulations*, paragraphs R360.16 and R360.17.

- The word “might” should be used specifically to denote the possibility of a matter arising, an event occurring or a course of action being taken.
55. The descriptions of the terms “may” and “might” were added to the Glossary in the Phase 1 agreed-in-principle text.
56. Some respondents to Structure ED-2 queried whether using “might” instead of “may” implied a weakening of some of the extant Code’s provisions. They also noted some inconsistencies in use. Also, some respondents to Safeguards ED-2 questioned the appropriateness of replacing the word “may” with “might” in statements that they understood to be describing the likelihood of threats occurring.

IESBA Decisions

57. The IESBA reaffirmed that an established description of the terms “may” and “might” enhances the clarity of the provisions in the Code.
58. The IESBA does not believe that the agreed-in-principle descriptions for the words “may” and “might” result in a weakening of the material in the extant Code because it believes the restructured provisions affected by this change retain the same original intended meaning under the extant Code.
59. Responsive to some of the questions raised by respondents, the IESBA nevertheless determined to refine the agreed-in-principle descriptions as follows:
- May – This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.
 - Might – This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken. The term is not intended to ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.

Use of the Phrase “Generally Necessary” in the Code

60. The IESBA has reduced the use of the phrase “generally” in the restructured Code.
61. The IESBA concluded that it is appropriate to retain the phrase “generally necessary” in two instances in the restructured Code (see paragraphs 210.8 A1 and 310.9 A3). The IESBA decided that it is not possible to define all the circumstances in which disclosure and consent are or are not necessary. Rather, it is a question of professional judgment. Accordingly, the Code requires the professional accountant to exercise professional judgment in determining whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest. The section then provides guidance on factors to consider in making that determination.

Use of the Word “Audit” to Encompass “Audit and Review” Engagements

62. The IESBA noted from responses to the CP and to Structure ED-1 that there is widespread support for using the word “audit” to encompass audit and review engagements. Most respondents to the CP and Structure ED-1 had felt that it was more cumbersome and unnecessary to have more extensive references to reviews. On this basis, the IESBA agreed this in principle.

63. A regulatory respondent to Structure ED-2 commented that an “audit” is not a “review” and that it would be clearer if this were reflected in Parts 4A and 4B of the restructured Code. The respondent noted the IESBA’s assertion that adopting organizations could choose to distinguish “audit” and “review” separately in their versions of the Code. The respondent did not share this view because it believed that this would not encourage adoption and that it would risk inconsistencies arising that may affect the Code’s application and enforcement.

IESBA Decisions

64. The IESBA agreed that an “audit” is technically not a “review.” The IESBA, however, reconfirmed that it was retaining a drafting convention already established in the extant Code and determined that the restructured Code should clearly explain that convention (see paragraph 400.4).
65. The IESBA also reaffirmed that:
- (a) It is appropriate for the restructured Code to deal with audits and reviews in the same standards, and that this be clarified in the body of the Code;
 - (b) The restructured Code should state that the standards continue to apply equally to both audit and review engagements;
 - (c) Descriptions would be included in the body of the restructured Code when they first appear rather than being footnoted; and
 - (d) Adopting organizations, if they so wished, could choose to distinguish “audit” and “review” separately in their national ethics codes.

“Eligible Audit Engagement”

66. Section 800²² describes an engagement to issue a restricted use and distribution report (in the circumstances set out in the restructured Code, paragraph R800.3) as an “eligible audit engagement.” Similarly, Section 990 describes an engagement to issue a restricted use and distribution assurance report (in the circumstances set out in the restructured Code, paragraph R990.3) as an “eligible assurance engagement.”
67. A respondent to Structure ED-2 commented that the term “eligible audit engagement” is not clear and suggested that the phrase “restricted use audit engagement” or “restricted use assurance engagement” may be clearer.

IESBA Decisions

68. The IESBA reaffirmed its Phase 1 decision to describe an engagement to issue a restricted use and distribution report as an “eligible audit engagement” in Section 800 and as an “eligible assurance engagement” in Section 990,²³ as these terms were clearly defined in those Sections.
69. In response to the comments received, the IESBA, however, determined to amend the title of Section 800 to clarify that the section covers reports on special purpose financial statements that include a

²² Part 4A, Section 800, *Reports on Special Purpose Financial Statements that Include a Restriction on Use and Distribution (Audit and Review Engagements)*

²³ Part 4B, Section 990, *Reports that Include a Restriction on Use and Distribution (Assurance Engagements Other than Audit and Review Engagements)*

restriction on use and distribution. The IESBA does not intend for this amendment to the title to change the meaning or application of Code.

Audit of Specific Elements, Accounts or Items of a Financial Statement

70. Responsive to respondents' suggestions to its proposed Section 900 in Structure ED-2, the IESBA determined to make clear in the restructured Code that an audit of specific elements, accounts or items of a financial statement is in the scope of that section (see paragraph 900.1). This clarification is not intended to change the meaning of the extant Code. Rather, the clarification addresses respondents' questions about whether the independence provisions in extant Section 290 are intended to apply to such an audit.

Drafting Inconsistencies

71. Some respondents highlighted apparent drafting inconsistencies between the Parts of the Code and the need for a drafting approach consistent with that taken in the IAASB standards. For example, some respondents queried whether some sections of the restructured Code were sufficiently clear, while others suggested that references to IAASB standards in the restructured Code be made consistently across the various sections.

IESBA Decisions

72. In finalizing the restructured Code, the IESBA carefully reviewed the provisions to ensure that there was as much drafting consistency as possible. However, as with the extant Code, there are some instances in which certain provisions in Part 4A are different from those in Part 4B.

VIII. Navigability

Building Blocks Approach

73. The principles underlying the approach to the restructuring were broadly supported as being simple, clear, adequate, and more conducive to navigation.
74. Some respondents expressed the view that the Code should be structured so as to have a core of material for all PAs augmented by additional material for specific situations ("a building block approach").

IESBA Decisions

75. The IESBA has applied a building blocks approach in restructuring the provisions in the extant Code. The enhanced conceptual framework set out in Part 1, Section 120, applies to all PAs and is not repeated in subsequent Parts or sections. The provisions in Section 120 are not intended to be a "step-by-step checklist" but rather are intended to lay out a logical approach for PAs to identify, evaluate and address threats in every situation. The provisions in subsequent Parts and sections are incremental in nature and generally do not repeat the material in Section 120 (see further discussion in the *Enhancements to the Conceptual Framework for all Professional Accountants* section of the [Basis for Conclusions for the Safeguards project](#)).
76. The IESBA has developed the restructured Code to facilitate a more advanced electronic Code (e-Code) in the future. The IESBA expects that the e-Code will facilitate enhanced navigability of the provisions in the restructured Code.

Numbering Conventions, Headings and Sub-headings

77. A few respondents commented on the numbering conventions, headings and subheadings in Phases 1 and 2 of the project.

IESBA Decisions

78. The IESBA made minor refinements to the numbering system agreed in principle as part of Phase 1 of the project. However, in doing so, it reaffirmed that the numbering system in Phase 1 was generally appropriate because it accomplished a number of objectives, including simplicity, enhanced visibility of requirements versus application material, and flexibility to add future material, both within an existing section and when introducing new sections.

79. Headings and sub-headings are used to help the readability of the material in each section of the restructured Code. In general, new headings and sub-headings are used when there is a change of subject matter.

80. The IESBA also agreed that the Code should be clear about which provisions apply in all circumstances and to all audit clients versus which provisions apply to audits clients that are PIEs only. Accordingly, the IESBA has applied the following drafting conventions in finalizing the restructured Code:

- Where there are no specific requirements for audits of entities that are PIEs (which includes Section 600 itself but not its subsections), material is positioned under a main heading titled “General” to make it clear that it applies to all entities.
- In the *International Independence Standards* in Parts 4A and 4B, the specific provisions relating to audits of entities that are not PIEs and those relating to audits of PIEs are presented under separate headings titled:
 - (a) “All Audit Clients” instead of “General” to introduce provisions that apply in all circumstances and for all audits;
 - (b) “Audit Clients that are not Public Interest Entities” to introduce material that apply to audits of clients that are not PIEs; and
 - (c) “Audit Clients that are Public Interest Entities” to introduce provisions that apply to audits of PIEs only.

For example, see Sections 410, 524, 540 and the provisions in the subsections of Section 600.

81. The IESBA believes that the headings and subheadings in the restructured Code will give more prominence to the provisions that are applicable to audits of clients that are PIEs.

IX. Other Matters

Avoidance of Possible Changes in Meaning

82. The objective of the project was to improve the understandability and usability of the Code without changing its meaning. Respondents provided helpful wording suggestions to avoid possible inadvertent changes in meaning, and suggestions aimed at reducing duplication of material and improving the flow and readability of the text.

IESBA Decisions

83. The IESBA gave careful consideration to each of the comments and suggestions, and agreed to a number of revisions.

Matters to be Considered as Part of Development of the IESBA's Strategy and Work Plan

84. A byproduct of the IESBA's deliberations in developing the restructured Code is a compilation of matters that have been identified for future Board attention. These generally are matters that have been raised by respondents to the various Exposure Drafts pertaining to the Structure, Safeguards, Applicability and Professional Skepticism (short-term) projects and which the IESBA determined to be outside the scope of those projects.
85. The IESBA will consider these matters as part of the development of its future strategy and work plan (SWP). The IESBA anticipates finalizing its SWP 2019-2023 by the end of 2018 (see also [Basis for Conclusions for the Safeguards](#) project for a discussion of the IESBA's future commitments in relation to the non-assurance provisions in the Code).

e-Code

86. The IESBA has developed the restructured Code with a view to enabling it to be adapted to a more advanced electronic Code. The IESBA believes that such an electronic Code will be important to facilitate greater ease of use of the Code. The IESBA has identified the development of the electronic Code as one of its priorities in 2018.

X. Effective Date

Feedback from Respondents

87. Respondents commented that having a coordinated effective date for the full restructured Code would mitigate the risk of confusion and suggested having June 15, 2019 as one effective date for the restructured Code and other associated pronouncements. It was also suggested that the IESBA consider extending the effective date of the restructured Code. Some stakeholders commented that the pace and complexity of change, including multiple and multi-phased projects resulting in significant changes to key provisions, meant that they would need more time to digest, adopt and incorporate the changes into their respective codes, rules and regulations. Others anticipated translation challenges for some jurisdictions as a result of the volume of the material.
88. One respondent recommended that the IESBA consider amending the effective date for the independence provisions relating to assurance engagements other than audits and reviews that cover a period by referring to periods commencing on or after a relevant date as opposed to referring to a particular point in time. Such engagements can comprise reports on periods of extended length. The respondent considered that making the changes to Part 4B on Independence and Section 940 on long association apply on a single date could have unintended consequences. It was also suggested that the IESBA clarify the effective date of the revised provisions pertaining to the long association of firm personnel with an audit or assurance client (i.e., the January 2017 [Long Association Close-off document](#)).

IESBA Decisions

89. After careful deliberation, the IESBA determined that:
- Parts 1, 2 and 3 of the restructured Code will be effective as of June 15, 2019;

BASIS FOR CONCLUSIONS: STRUCTURE

- Part 4A relating to independence for audit and review engagements will be effective for audits and reviews of financial statements for periods beginning on or after June 15, 2019; and
 - Part 4B relating to independence for assurance engagements with respect to subject matter covering periods of time will be effective for periods beginning on or after June 15, 2019; otherwise, it will be effective as of June 15, 2019.
90. The IESBA believes that it is in the public interest that the restructured Code be implemented as soon as possible. The IESBA concluded that the effective date is reasonable and determined not to delay it, recognizing that:
- The restructured Code contains several substantive improvements to the Code – and are not just “restructuring changes.” Pushing back the effective date of the restructured Code would delay when the enhancements resulting from Phase 1 of the Part C project as well as from the Safeguards project would become effective; and
 - Many jurisdictions need to undertake their own national due processes for adoption and may therefore need to specify a different effective date for their versions of the Code.
91. With respect to the revised extant Long Association provisions (i.e., the January 2017 [Long Association Close-off document](#)), the IESBA determined to modify the effective date as follows:
- The revised provisions in extant Section 290 are effective for audits of financial statements for periods beginning on or after December 15, 2018. (As previously announced, as a transitional provision, paragraph 290.163 in the revised extant Section 290 will have effect only for audits of financial statements for periods beginning prior to December 15, 2023.)
 - For the revised provisions relating to assurance engagements in extant Section 291:
 - For assurance engagements covering periods, these provisions will be effective for periods beginning on or after December 15, 2018;
 - Otherwise, they will be effective as of December 15, 2018.

The effective date of the restructured Code does not override the effective date of the revised extant Long Association provisions.

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