

Supplement 2 to Agenda Item 3

Structure ED-2 Supplement 2 – Compilation of Responses to Questions [As of June 6, 2017]

Note 1: This supplement has been prepared for information only. It contains comments received as of June 6, 2017 on the January 2017 Exposure Draft, [Improving the Structure of the Code of Ethics for Professional Accountants—Phase 2](#) (Structure ED-2). All comment letters on the ED can be accessed [here](#).

Please consider the environment before printing this supplement.

Question 1

Structure of the Code Phase 2

1. Do you believe that the proposals in this ED have resulted in any unintended changes in meaning of:
 - The provisions for Part C of the Extant Code, as revised in the close-off document for Part C Phase 1 (see Sections 200-270 in Chapter 1)?
 - The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)?
 - The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)?
 - The provisions addressing restricted use reports in the extant Code (see Section 800 in Chapter 4)?
 - The provisions relating to independence for other assurance engagements (Part 4B in Chapter 5)?

If so, please explain why and suggest alternative wording.

#	Respondent	Detailed Comment
1.	AAA	We read Chapter 5 in light of the specific requests in Structure ED-2. We do not believe that the proposals in the ED have resulted in any unintended changes in meaning,
2.	AAT	AAT has not identified any likely unintended changes of meaning
3.	ACCA	<i>Part C - Phase 1:</i> We are concerned by the explicit statement in paragraph 200.5A3 that '[a]ll professional accountants have a responsibility to act in the public interest'. We would encourage consistency with paragraph 260.7A1, which notes that '[a] distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest'. Given the inevitable disagreement at times about what the public interest entails in a given situation, the acceptance of the profession is very different to the responsibility of an individual within that profession. In any event, we would expect application material to

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		<p>avoid setting out professional accountants' responsibilities.</p> <p>In combining extant paragraphs 310.3 and 310.6 into paragraph R210.5, it becomes more apparent that that existing wording may be confusing. In safeguarding the fundamental principles, the professional accountant is required to consider the circumstances that present a conflict of interest, rather than a particular activity. The threat produced by an existing conflict must be assessed and managed before any activity is contemplated. Therefore, R210.5(b) should be reworded.</p> <p><i>Independence for other assurance engagements:</i></p> <p>The structure of the 'introduction' in section 900 is not consistent with that in section 400. This might raise questions in the mind of the reader. In addition, there is no reference, at the start of each of these sections, to the conceptual framework. Although the risk of confusing independence with objectivity should be avoided, we believe that, if the references at the start of each section in Parts 2 and 3 are to remain, there should also be a similar reference at the start of sections 400 and 900.</p> <p>We have concerns, however, about the excessive number of references to applying the conceptual framework. For example, paragraph 911.3 states 'Section 911 sets out specific requirements and application material relevant to applying the conceptual framework to loans and guarantees'. There would be significant benefit in clarifying that application of the conceptual framework is often necessary in safeguarding objectivity (where loans and guarantees are concerned), but much of section 911 sets out requirements in order to ensure independence of mind and independence in appearance.</p> <p>In the case of certain assurance engagements, it is possible (unlike an audit engagement) that the engagement may be with an individual professional accountant. Therefore, care should be taken to make clear within Part 4B that references to 'firm' could relate to an individual where the assurance engagement is with an individual.</p> <p>Paragraph 900.17A1 simply states that network firms are discussed in respect of audits and reviews. However, section 900 concerns other assurance engagements, and so it is necessary to explain how paragraphs 400.50A1 to 400.54A1 relate to other assurance engagements.¹</p>
4.	AE	<p>General comments</p> <p>In our comments to the IESBA Exposure Draft <i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1</i> dated 18 April 2016, we made the following remarks:</p> <ul style="list-style-type: none"> • The proposed title would be misleading as the intention is not to develop standards for all parts of the Code;

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		<ul style="list-style-type: none"> • It is important to distinguish between the fundamental principles and those principles that may result in standards; • We favor a ‘building block’ or a ‘layered’ approach that could be easily scalable – a core block for all professional accountants (including SMPs) and complementing blocks dealing with specific activities or circumstances; • We welcome the approach of maintaining the existing link between the Code, ISQC 1 and ISAs. <p>Firstly, we welcome that the majority of our comments regarding Phase 1 have been accommodated in the Basis for Agreement in Principle, especially the creation of independent sections for the independence standards.</p> <p>Nevertheless, this restructuring may be seen as a shift towards a more rules-based Code. As mentioned in our comments to Phase 1, the main concern of the Code should remain to address the mind-set and behavior of the professional accountant instead of promoting mere compliance with a set of provisions. Compliance with each of the requirements does not necessarily mean compliance with the fundamental principles and conceptual framework, and this aspect should be emphasized in this restructuring exercise.</p> <p>We would also like to reiterate our preference for a ‘building block’ or a ‘layered’ approach that could be easily scalable – a core block for all professional accountants (including SMPs that do not deal with Public Interest Entities (PIEs)) and complementing blocks dealing with specific activities or circumstances. This can be easily implemented with a proper electronic tool that enables, among other features, the distinction between provisions applicable to PIEs and non-PIEs - the electronic Code can help in this regard. This approach would also help reduce the length of the Code that needs to be considered by most professional accountants.</p> <p>Lastly, although we understand that IESBA has taken into account the anticipated approval dates for various sections of the Code currently under revision or restructuring, that will mean that some parts of the Code will be applicable in the old format, for a short period of time, in a very inefficient way.</p> <p>For the sake of consistency and clarity, we support only one application date – 15 June 2019. We do not foresee significant disadvantages in aligning the effective dates, as set out in paragraphs 20 and 21 of the explanatory memorandum, that could outweigh the positive practical implications of doing so.</p> <p>Accountancy Europe’s responses to the questions set out in the ED can be found in the appendix to this letter.</p>

¹ We believe there are errors in the cross-referencing of paragraphs within the exposure draft and the agreed-in-principle text. This illustrates the complexity of the numbering system, which we still believe can be simplified.

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		We appreciate the opportunity to provide input and hope that IESBA finds our comments helpful when amending the Code.
5.	AICPA	No, we do not believe that the proposals in this ED have resulted in any unintended changes in the meaning of the Sections of the Code noted above.
6.	APESB	<p>Subject to APESB’s comments below, APESB is supportive of the proposals in the Structure 2 ED. The restructured provisions have made the Code easier to read and understand, which in turn will facilitate implementation of the Code and promote compliance among professional accountants.</p> <p>However, APESB believes that in some cases the streamlining of the requirement to comply with the conceptual framework has weakened the extant requirements in the Code. The proposed approach in the Structure 2 ED is that a reference to complying with the conceptual framework is included in the introduction paragraphs of each section. This works well when there is a clear requirement within the section that a professional accountant must comply with.</p> <p>But in circumstances where there is no requirement listed within the section, there is a risk that professional accountants will not understand their responsibilities and may not make the necessary connection back to the conceptual framework. This is because the introduction paragraphs are not designated as either a requirement or an application paragraph. There is a risk that this material will not be referred to or relied upon by users when they are considering the content of each section, especially if they navigate through the Code electronically.</p> <p>This situation is clearly seen when you compare like sections such as the sections on gifts and hospitality in the proposed Parts 2 and 3. In section 420, which applies to professional accountants in public practice, there is a clear requirement about when the professional accountant can or cannot accept gifts and hospitality. In contrast section 340, which applies to professional accountants in business, contains application material about potential threats and the level of those threats but has no clear requirement.</p> <p>APESB believes that section 340 would be improved if it included a requirement paragraph such as <i>‘A professional accountant shall not accept an offer of gifts or hospitality if threats to the fundamental principles cannot be eliminated or reduced to an acceptable level.’</i></p> <p>APESB recommends that the IESBA conducts a comprehensive review of sections to ensure the requirements are clear and can be understood if they are read in isolation.</p> <p>Requirement paragraphs are also being weakened when they refer to obligations in application paragraphs. APESB has</p>

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		<p>noted a few instances where this has occurred as noted below;</p> <ul style="list-style-type: none"> • Paragraph R220.10 requires a professional accountant to exercise professional judgement to determine the necessary steps to undertake to fulfill the responsibilities in paragraph 220.7 A1. • Paragraph R260.26 specifies that in exceptional circumstances, a disclosure to authorities of a NOCLAR by an accountant is not a breach of confidentiality if it is made pursuant to 260.20 A2 and A3. <p>APESB recommends that the IESBA conduct a thorough review of requirements paragraphs and amend any that refer to application paragraphs so that the specific matters outlined in the application material are captured in the requirements paragraph.</p> <p>While most of the proposals have improved the clarity of the extant provisions, the APESB has noted that there could be further improvements made in respect of the following matters:</p> <ul style="list-style-type: none"> • <u>Use of professional judgement for imminent breach of NOCLAR</u> There is an opportunity to link paragraphs R 260.22 and 260.22 A1 (and R360.27 and 360.27 A1) in respect of what a professional accountant should do in exceptional circumstances where there is an imminent breach of law or regulation. In the extant NOCLAR provisions the content in these paragraphs were combined, and APESB is concerned that the connection may be lost when split into two paragraphs as proposed in the Structure 2 ED. APESB recommends that the following extant sentence is retained and replaces the proposed second sentence in paragraph R260.22 and application paragraph 260.22 A1: <i>‘Having considered whether it would be appropriate to discuss the matter with management of those charged with governance of the entity, the professional accountant shall exercise professional judgement and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation.’</i> We believe that this drafting makes the process to be followed clear. • <u>Clarity on the provision of engagement letters to a group of lenders</u> Professional accountants are required to make users, or their representative, aware of any restrictions on use or distribution of reports prepared applying modified independence requirements (paragraph R800.3). In the application material in paragraph 800.3 A2, we believe that the phrase in the second sentence “to meet the

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		<p><i>requirement for the firm</i>” might be misinterpreted to mean that accountants’ compliance with the above requirement is dependent on the specific actions of the users’ representative.</p> <p>We recommend that this sentence be changed to:</p> <p><i>“The representative might then make the firm’s engagement letter available to the members of a group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative”.</i></p> <ul style="list-style-type: none"> • <u>Limitation implied by the phrase ‘contractual or regulatory outcomes’</u> Paragraphs R220.8 and 220.7 A1 set out that professional accountants should not prepare or present information that is misleading or will inappropriately influence “<i>contractual or regulatory outcomes</i>”. <p>APESB is of the view that the phrase “contractual or regulatory outcomes” is limiting. We recommend that the requirement should be extended to also cover <i>commercial outcomes</i>.</p> • <u>Clarity of provisions on the preparation and presentation of information</u> There are a number of instances where the language or phrases used in Section 220 do not seem appropriate and may result in varying interpretations of the provisions. For example, paragraph 220.7 A1 refers to estimates being used for debt covenants or capital requirements, but in practice actual financial results are used not estimates. Paragraph 220.8 A1 also contains a number of instances where the words used could be confusing to the reader. One such instance is a listed example where users are referred to two different accounting policies permitted under the applicable financial reporting framework. We would respectfully note that if the relevant accounting policies are permitted then it should not imply that this would lead to an improper accounting outcome. Therefore APESB suggests the alternative wording below should be used to improve the clarity of this paragraph: <p><i>220.8 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes includes:</i></p> <ul style="list-style-type: none"> • <i>Determining estimates, for example, determining <u>preparing</u> fair value estimates in order to <u>a manner that will misrepresent profit or loss.</u></i> • <i>Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework <u>where the application of one alternative is doubtful</u>, for example, <u>selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.</u></i>

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		<ul style="list-style-type: none"> • Determining <u>Influencing</u> the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead a manner that does not reflect the true financial position of the entity. • Determining the structuring of transactions <u>in an inappropriate manner</u>, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows. • Selecting <u>inappropriate</u> disclosures, for example, omitting or obscuring information relating to financial or operating risk in order to mislead. <p>• <u>Use of the term 'Professional Activity'</u> APESB has noted a number of instances where the provisions refer to <i>assignments</i> or <i>services</i> (for example, paragraphs 113.1 A3, R113.3 and R115.2(a)). APESB is of the view that the term <i>professional activity</i> is more appropriate, as it is a defined term in the Code and applies to both professional accountants in business and in public practice. APESB recommends that the IESBA review the references throughout the Code to <i>assignments</i> or <i>services</i> to consider if <i>professional activity</i> should be used instead.</p> <p>Additional comments noted from APESB’s review of the Compilation of Proposed Restructured Code are noted below:</p> <ul style="list-style-type: none"> • <u>Independence and the Conceptual Framework</u> APESB notes the addition of paragraph 120.12 A1 to highlight the importance of independence in relation to audits, reviews, or other assurance engagements. However, APESB believes this paragraph should be a requirement and phrased as; <i>‘Professional accountants in public practice shall be independent when performing audits, reviews and other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity’.</i> APESB is of the view that the definition of independence should be removed from section 120 as it is duplicating the material in the Glossary, and Parts 4A & 4B and is not necessary in that section from a user’s perspective. • <u>Cross references to breaches of the fundamental principles</u> Paragraph R100.4 sets out the required actions for professional accountants when they identify a breach of the Code. The paragraph starts by referring to specific sections in Part 4A and Part 4B which deal with breaches of independence. However, this requirement relates to compliance with the fundamental principles in general and is not limited to independence breaches. We therefore recommend that the references to independence-related paragraphs

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		<p>be removed.</p> <ul style="list-style-type: none"> <p><u>Clarity of requirements relating to providing non-assurance services to an audit client</u></p> <p>The proposed paragraph R600.10 is lengthy and complex with the two different lists of factors. APESB suggests that this paragraph be amended as follows:</p> <p>R600.10 <i>Section 600 prohibits assuming management responsibilities or providing certain non-assurance services to audit clients. As an exception to those requirements, a firm or network firm may assume management responsibilities or provide non-assurance services that would otherwise be prohibited to the following related entities of the <u>audit client</u> on whose financial statements the firm will express an opinion:</i></p> <p>(a) <i>An entity that has direct or indirect control over the client;</i></p> <p>(b) <i>An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or</i></p> <p>(c) <i>An entity which is under common control with the client,</i></p> <p><i>provided that all of the following conditions are met the firm or a network firm does not:</i></p> <p>(i) <i>The firm or a network firm does not express an opinion on the financial statements of the related entity;</i></p> <p>(ii) <i>The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion; and</i></p> <p>(iii) <i><u>perform</u> The services that do not create a self-review threat because the results of the services <u>those services with results</u> will not be subject to audit procedures.; and</i></p> <p>(iv) <i>The firm applies the conceptual framework to eliminate any threats created or reduce them to an acceptable level.</i></p>
7.	BDO*	We do not believe that the proposals in the ED have resulted in any unintended changes.
8.	CAANZ	<p>Please refer to our previous submissions on Part C, NO CLAR and Long Association, we have no additional comments at this time.</p> <p>With regards to other assurance engagements we would like to bring the following matters to IESBA’s attention;</p>

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		<ul style="list-style-type: none"> • Part 4B is intended to apply to “assurance engagements other than audit and review engagements” [900.1]. If a user refers to the definitions in the glossary it is clear that assurance engagements include engagements conducted in accordance with International Standards on Auditing, International Standards on Review Engagements and International Standards on Assurance Engagements. We feel that to convey the wide variety of assurance engagements intended to be captured by the definition more examples should be included at 900.1. • Paragraph 911.6A2 appears to contain an error. The paragraph says “having the work reviewed by a professional who is not a member of the assurance team that is neither involved with the assurance engagement nor a beneficiary of the loan”. We don’t think you need to say “not a member of the assurance team” and “neither involved with the assurance engagement” as it is repetitious.
9.	CHI	We do not consider that the proposals have resulted in any unintended changes in the meanings of the specified items.
10.	CPAC	<p><i>The provisions for Part C of the Extant Code, as revised in the close-off document for Part C Phase 1 (see Sections 200-270 in Chapter 1)?</i></p> <ul style="list-style-type: none"> • Generally, complications may arise when very similar matters are included in the Parts of the Code for Professional Accountants in Business and Professional Accountants in Public Practice. This was highlighted in our response to the Applicability ED and it was noted again in consideration of this Exposure Draft as it may be confusing for a Professional Accountant who needs to be aware of and apply two different sets of similar, but not necessarily identical, requirements. • With Parts of the Code developed based on roles, some observations were noted where the application guidance or a requirement appears in one Part but not both such as: <ul style="list-style-type: none"> ○ 210.7 A3 - whether similar application guidance would also be relevant for the Professional Accountant in Public Practice

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		<ul style="list-style-type: none"> ○ 310.5 A1 - whether similar application guidance would also be relevant for the Professional Accountant in Business ○ 310.8 A2 - whether similar application guidance would also be relevant for the Professional Accountant in Business ○ R310.11 - whether a similar requirement should also be included regarding Professional Accountants in Business ○ 360.15 A1 - whether similar application guidance should also appear in section 260 for Professional Accountants in Business ● 210.8 A1 was viewed as standalone application guidance that should potentially be considered as a requirement to ensure enforceability followed by application guidance with respect to the form of consent. Generally, it was observed that R210.5 to 210.8 A3 could be improved with ordering of the information leading from that which was general to the specific. ● 210.10 A1 appears to need more clarity/specificity as to what the reader is being referred to or what the reader should be looking for as relevant in the statement “Requirements and application material relevant to such threats is set out in Sections 220, 240 and 270.” In comparison to this style of reference, 220.14 A1 and 230.5 A1 were cited as more helpful and relevant in providing meaningful cross-references. ● 220.7 A1 – This paragraph is phrased more as a requirement as opposed to application guidance. Furthermore, R220.10 references fulfilling the responsibilities set out in 220.7 A1. ● 220.10 A1 - Should “Factors” be preceded by “Some” to ensure the list is not considered to be all-inclusive? ● R220.11 has a heading “Addressing Information that Might be Misleading” whereas the requirements appear to address situations where information is or may be misleading. Respectfully, we suggest that a choice should be made as to whether the threshold is either the suspicion of misleading information or the certainty of misleading information (i.e., “might be” versus “is”). ● Inconsistency was identified where R220.12 and R220.13 use the phrase “reason to believe” which was noted to be a different standard than “becomes aware” as indicated in R220.11 <p><i>The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)?</i></p>

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		<ul style="list-style-type: none"> • The undefined term “scheme” was noted in 260.20 A2 and 360.25 A2. It was identified that it has varying connotations in various jurisdictions and that without defining, it may lead to inconsistent application. In contrast, it was noted that otherwise commonly used and understood words such as “may” and “might” were defined and included in the glossary. • As a housekeeping observation, it appears that “senior” is missing in front of “professional accountant” in 260.22 A1. • 360.28 A1 – It was noted that references to International Standards varied and may require the reader to research well beyond the Code to understand the Code’s provisions. In this regard, 360.28 A1 is informative and helpful to the reader. • An observation was made that the documentation described at 360.40 A1 should likely be the same as that appearing in R360.28. <p><i>The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)?</i></p> <ul style="list-style-type: none"> • No items noted. <p><i>The provisions addressing restricted use reports in the extant Code (see Section 800 in Chapter 4)?</i></p> <ul style="list-style-type: none"> • As highlighted in our response to the Safeguards ED-2, we believe that significant potential confusion remains within the Code through the use of the term “audit” defined in part of the Code to include reviews. Given the inherent differences between the two and the prevalence of review engagements in Canada, we believe that the use of “audit” and “review” separately identified and stated consistently within the Code, where applicable, would be strongly preferred. <p><i>The provisions relating to independence for other assurance engagements (Part 4B in Chapter 5)?</i></p> <ul style="list-style-type: none"> • It was noted that “Other” has been used in the titles, headings and 900.1 and it is believed that greater clarity would be achieved if it was retained throughout in reference to other assurance engagements. • It was observed that potential confusion may result from the description of assurance engagements in 900.1 versus the glossary definition. As practitioners seeking guidance may not read all sections from 900.1 onward, there is a real risk of missing information critical to the meaning and appropriate application of this section. • It was suggested that 900.40 A1 would be improved with the deletion of “However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.”

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		<ul style="list-style-type: none"> As a housekeeping observation, it appears that the reference in 924.6 A2 should be made to 924.6 A1. It was noted that the titles should not be identical and should be made clearer for Section 800 regarding audits and 999 regarding other assurance engagements.
11.	DTTL*	<p>1. The provisions for Part C of the Extant Code, as revised in the close-off document for Part C Phase 1 (see Sections 200-270 in Chapter 1)?</p> <p>The drafting in 210.2 is different to most other introductory sections because relevant Application material about how threats might be created has been included in the introduction paragraph rather than as application guidance. The words after “<i>Such threats might be created when...</i>” would seem to be more appropriately included in the General section of the Requirements and Application material.</p> <p>2. The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)?</p> <p>The provisions do not refer to “non-compliance” consistently. Some references are to “acts” of non-compliance, some to “instances” of non-compliance and sometimes just to non-compliance, which might imply they mean different things. We suggest referring consistently to non-compliance or suspected non-compliance for clarity, for example: <i>260.2 Threats to compliance with the principles of integrity and professional behavior are created when an accountant becomes aware of non-compliance an act or suspected act of non-compliance with laws and regulations.</i></p> <p>There is a difference between the wording of 260.3 and 360.3, and 260.5 A1 and 360.5 A1 regarding the application of this Section. We suggest 260.3 and 360.3 should read consistently with 260.5 A1 and 360.5 A1 “...<i>regarding the approach to be taken by a professional accountant <u>who encounters or is made aware of</u> when responding to non-compliance or suspected non-compliance with...</i>”</p> <p>There is a sub-title “<i>Addressing the Matter</i>” before sections R260.13 and R360.13. Considering the greater focus on the conceptual framework and “addressing threats” this subtitle could be confusing as to whether it is referring back specifically to the conceptual framework. We suggest renaming the sub-title “<i>Responding to the Matter</i>” which would remove any confusion with “addressing threats”. It would also be consistent with the wording used in other paragraphs in this section, for example, <i>R260.15 “In addition to responding to the matter in accordance with the provisions of this section...”</i> There are several other places in this Section where “respond” may be a better word to use than “address” to</p>

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		<p>avoid confusion, for example, 360.16 A1 “.. and if so, how to <u>respond to</u> address it in accordance with the provisions of this section.</p> <p>We consider that for clarity, the requirements in R260.21, R260.22, R360.27, R360.26 should include the clear reference that disclosure will not be a breach of confidentiality only when the decision to disclose is made in accordance with the provisions of the Section (as is included in R260.26). For example:</p> <p><i>R260.21: If the senior professional accountant determines, pursuant to paragraphs 260.20 A2 and A3, that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, this is not a breach of the duty of confidentiality under Subsection 114 of the Code.</i></p> <p>and</p> <p><i>R360.26: If the professional accountant determines, pursuant to paragraphs 360.25 A2 and A3, that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this is not a breach of the duty of confidentiality under Subsection 114 of the Code.</i></p> <p>There appears to be an inconsistency in the provisions with regard to considering whether to inform management or those charged with governance before making disclosures. R360.26 includes a requirement that the professional accountant shall also consider whether it is appropriate to inform the client of the accountant’s intentions before disclosing the matter, however there is no similar requirement in R260.22. However, both 260.22 A1 and 360.27 A1 also set out the professional accountant might consider whether to discuss prior to deciding whether to disclose the matter to an appropriate authority <i>immediately</i>. We recommend making the requirements/guidance consistent for clarity, while recognising it is also missing in the extant provisions.</p> <p>3. The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)?</p> <p>By splitting the requirements into bullet points in R540.5, the meaning of the first bullet point has been changed as it has lost the link to being “for the audit engagement”. The rotating individual is not permitted to be a member of the engagement team for the audit engagement (which, for the sake of clarity, is different to an engagement team member and different to an audit team member). R540.5 should read:</p> <p><i>If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:</i></p> <p><i>(a) Be an member of the engagement team <u>member for the audit engagement</u>; or</i></p>

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		<p><i>(b) Provide quality control for the audit engagement; or...</i></p> <p>For the same reasons, R940.5 (a) should read <i>“Be an member of the engagement team <u>member for the assurance engagement</u>”</i></p> <p>It would also be more accurate to separate R540.19 (a) into two separate points and make clear the reference is to a member of the engagement team for the audit engagement, as follows:</p> <p><i>R540.19 For the duration of the relevant cooling-off period, the individual shall not:</i></p> <p><i>(a) Be an engagement team member <u>for the audit engagement</u>;</i></p> <p><i>(b) or Provide quality control for the audit engagement;</i></p> <p><i>(b) (c) Consult with the engagement team or the client regarding technical or industry-specific....</i></p> <p>Sections R540.7-9 which are set out as exceptions to R540.6 are confusing as Requirements as they do not contain “shall” wording and therefore do not follow the drafting conventions. As the Requirement in R540.6 already states it is subject to R540.7 to R540.9, we would question whether the “exceptions” in fact need to be set out in Requirement paragraphs.</p> <p>4. The provisions addressing restricted use reports in the extant Code (see Section 800 in Chapter 4)?</p> <p>The last paragraph in R800.3 and R999.3 does not seem to form part of the conditions for an engagement to be an “eligible engagement” in the extant Code, rather an additional requirement/clarification regarding the requirement to communicate to intended users. It would seem better placed as a new Requirement paragraph located before 800.3 A2 and 999.3 A2 respectively, which would also more closely link the Requirement with the Application guidance which is currently disjointed and hard to follow. For example:</p> <p><i>New R800.4/R999.4 Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.</i></p> <p><i>New 800.4. A1/999.4 A1 For example, where the intended users <u>are a class of users such as lenders in a syndicated loan arrangement</u>, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders...</i></p> <p>5. The provisions relating to independence for other assurance engagements (Part 4B in Chapter 5)?</p>

#	Respondent	Detailed Comment
		<p>Some helpful guidance from the extant Code is missing from the restructured Part 4B:</p> <ul style="list-style-type: none"> • The extant Code is clear that if an assurance client is also an audit client that Part 4A applies. While 900.14 cross references to Part 4A, it does not explicitly make the point that you cannot apply Part 4B to an engagement with an audit client just because you are performing an assurance engagement. • Extant 291.101 explains that in the majority of assurance engagements there is one responsible party and that responsible party is the assurance client. <p>Independence requirements are different with respect to audit and other assurance clients and therefore we would suggest that it is important for R900.15 to state <i>“A firm performing an assurance engagement shall be independent of the assurance client in accordance with Part B”</i>. Likewise suggest 900.5 state <i>“When performing assurance engagements, the Code requires firms to comply with the fundamental principles and be independent of the assurance client in accordance with Part B”</i>.</p> <p>The requirement in R905.7 has been changed slightly and no longer recognises that fees may remain unpaid after the issuance of the assurance report, and that is when the matters in R905.7 (a) and (b) are to be determined: <i>R905.7 When a significant part of fees due from an assurance client remains unpaid for a long time, If fees remain unpaid after the assurance report has been issued the firm shall determine:</i></p> <p>It is unclear how a firm would have the ability to meet the requirement in R910.11 to apply the conceptual framework set out in Section 120 to two situations where the assurance team member is the individual with the knowledge of the financial interests. The extant Code does not place a requirement on the firm.</p> <p>A new requirement has been created in R911.7 that prohibits accounts with banks or brokers unless held on normal commercial terms. Extant 291.117 states that a deposit or brokerage account on normal terms does not create any threat to independence. It does not prohibit one from having an account that is not on normal terms, in which case, presumably one would evaluate the threats created by such a circumstance (note the construct “does not usually create a threat to independence” is still used elsewhere for example 920.6 A1).</p>

12. EYG We have not identified any unintended changes in meaning in the above referenced sections except for the comments contained in the attachment.

The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)?

We have not identified any unintended changes in meaning in the above referenced sections.

The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)?

We have not identified any unintended changes in meaning in the above referenced sections except for the comments contained in the attachment.

The provisions addressing restricted use report in the extant Code (see Section 800 in Chapter 4)

We have not identified any unintended changes in meaning in the above referenced sections except for the comments contained in the attachment.

The provisions relating to independence for other assurance engagements (Part B in Chapter 5)? If so, please explain why and suggest alternative wording?

We identified four possible changes in meaning in Part B, Chapter 5, as outlined below (see Attachment for additional detail):

- The revised text for Section R900.32 appears to eliminate a safeguard previously available under extant Code Section 291.32: “Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for this section.” This safeguard has been retained in the corresponding Section 400.32 applicable to audit and review engagements, and we suggest that this safeguard be re-instated in Section R900.32.
- The revised text for Sections R900.51 and R900.52 seems to suggest that only the firm can take actions to address the consequences of a breach, or the engagement must be terminated which appears to exclude the possibility that the client, rather than the firm may be able to take satisfactory action to address the breach which is provided for in the extant Code.
We suggest the text from the extant Code be re-instated or the section be re-phrased to be consistent with the existing provision which includes this additional safeguard.
- The revised text for Section 911.6 A2 appears to eliminate caveats included in the extant Section 291.113 which requires the reviewing professional from a network firm neither be involved with the assurance engagement nor be the recipient of the loan.

We ask the Board to consider including the caveats contained in extant Section 291.1 in the revised Section 911.6 A2.

- The revised text for Section 920.5 does not appear to address non-purchase-related business relationships by immediate family members which is contained in the last paragraph of Section 291.118 of the extant Code.

We suggest the Board consider addressing such business relationships in Section 290.5 consistent with Section 920.5 of the extant Code.

We would also like to take this opportunity to re-state a comment which we included in our April 25, 2017 response to *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2* regarding the use of “might” in some sections of the Code. We consider that the use of the word “might” versus “may” appears to weaken the requirements regarding identifying threats to independence. Many technical resources regarding English language suggest that “might” is normally viewed as suggesting something more remote than “may”. For example, Merriam-Webster indicates that “might” suggests “less probability or possibility” than “may”. Where the substitution of “may” with “might” appears to function in the sections presented in Phase 1 of Safeguards and Structure projects project, it appears inappropriate in the context of Section 600 and non-audit services as it appears to understate the true level of risk that such a threat may exist. For example, the statement “Providing valuation services to an audit client might create self-review threats” appears to suggest that a self-review threat would be remote when in reality it is likely in most situations.

We suggest using some other wording that reflects more accurately the risks of threats occurring. The Merriam-Webster dictionary definition of “may” suggests it can be used interchangeably with the word “can” which we consider is a better alternative to “might”. In the context of safeguards, the introduction of a conditional word such as “might” appears appropriate because it reminds the PA that the safeguard may not always be effective as a means of reducing a threat. However, the word “can” would seem to reflect more accurately the probability or possibility that the safeguard would be adequate.

Section	Explanation	Suggestion
200.4	“(b) Professional accountants in public practice when performing.....” Could be more concise and direct.	Re-word: “Professional accountants in public practice when performing professional activities related to their firm, either in an employment or ownership capacity.”
200.6 A1 (d)	“A professional accountant having a long association with contacts influencing	We suggest to use the phrase “directors, officers or employees” rather than “contact.”

	business decisions.” The use of the word “contact” is confusing	
220.8 A1	First bullet: do we need the repetition of the word “determining”?	Suggest re-word to read: “Determining estimates, for example, fair value estimates in order to misrepresent profit or loss.” This is in line with succeeding example bullet points (see bullets 3 & 4).
R220.9	“(b) The context in which it is given; and”. Word “within” should replace word “in”.	Consider rewording to read: “(b) The context within which it is given; and”
R220.10	Relying on the work of others – is this the correct positioning of the “Restructured” paragraph? 220.10 A1 sets out the factors underpinning whether or not it is appropriate to rely on the work of others, only after deciding whether or not to do so, should the reader be thinking about exercising professional judgement and which steps to take.	Consider switching the order of R220.10 and 220.10 A1
R220.13 (220.13 A1 & A2)	How does the accountant refuse to be or remain associated with the information?	Consider an example of how an accountant might do this? If the following sections 220.13 A1 and 220.13 A2 are intended to be examples or contain examples then consider indenting them as examples, not separate subsections, in line with the preceding sections and their examples.
R230.5	“Communicate the reasons.” To whom?	Consider a suggestion or examples of where to communicate the matters/reasons. Is it the case that the reader should be reporting to those charged with governance?

R270.5	“(b) Applying safeguards, where available or capable of being applied; or” As has been done with other sections do we need to exemplify options available to the professional accountant, where potential safeguards are concerned?	Consider linking back to other safeguards previously mentioned or give an example here. Is it the case that 270.4 A6 are in fact the examples, if this is intended to be the case, then perhaps R270.5 should be positioned before 270.4 A6 and the aforementioned paragraph is broken down into examples of potential safeguarding?
540.4 A3	Safeguards are suggested before examples of threats are given.	Consider re-ordering to list threats before safeguards.
540.5 A1	This should be earlier in the chapter – it deals with evaluating the threats before deciding which actions are appropriate as safeguards.	Suggest re-locate to earlier in the chapter.
540.5 A2	<p>“For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client’s senior management would be reduced by the departure of that member of the client’s senior management <u>and the start of a new relationship.</u>”</p> <p>The last phrase in the sentence seems unnecessary.</p>	Suggest remove “and the start of a new relationship.”
R540.6	This paragraph sets the general principle to which other sections will provide certain exceptions. It seems unnecessary to start the paragraph with “Subject to paragraphs R540.7 to R540.9”, as the exceptions further	Suggest remove “Subject to paragraphs R540.7 to R540.9.”

	down in the text clearly mention “as an exception to ...”	
540.6 A1	The reference R540.10-12 is technically incorrect as the individual has not completed the ‘time-on’.	Consider whether reference to R540.10-12 is correct.
540.7 A1	There appears to be some unnecessary language and clarity could be enhanced.	Consider the following language instead: “For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm will discussing with those charged with governance the reasons why the planned rotation cannot take place and agree on (or propose) appropriate the need for any safeguards to reduce any threat created.”
R540.12	Original wording was easier to read: “If the individual has acted in any other capacity as a key audit partner for seven ...” New text: “If the individual has acted as a key audit partner other than in the capacities set out in R540.10 and R540.11 for seven ...”	Suggest retain the extant language.
540.19 A1	The term ‘Senior or Managing Partner (Chief Executive or equivalent)’ (original text) has	Consider retaining terminology from extant Code as it is broader and recognizes that such roles have a multitude of titles.

	been changed to ‘Chief Executive or equivalent’ (ED).	
R540.20	This is a general principle – it would make more sense to have it before R540.5	Suggest move section to precede R540.5
540.20 A1	This paragraph is an exception to R540.6 ...	Suggest R540.20 A1 should be grouped with the other exceptions.
940.5 A1/A2	Factors relevant to evaluate the threats should be earlier in the section – at least before the safeguards.	Suggest re-locate 940.4 A2 and 940.4 A3 to earlier in the section. Also, suggest remove “and the start of a new relationship...” from 940.5 A2 consistent with earlier comment.
800.2	“Section 800 sets out certain modifications to Part 4A (excluding this section) which ...” The mention “(excluding this section)” seems unnecessary.	Consider whether inclusion of the phrase “(excluding this section)” is necessary.
R800.7	“When the firm performs an eligible audit engagement, references to audit client in Part 4A (excluding this section) do not need to include its related entities.” The use of “do not need to include” seems to add unnecessary ambiguity.	Suggest removing “need to” so sentence reads: “When the firm performs an eligible audit engagement, references to audit client in Part 4A (excluding this section) do not include its related entities.”
R800.9	“The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and close family members.”	Suggest removing “need” so the sentence would read: “The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 apply only to the members of the engagement team, their immediate family members and close family members.”

<p>900.1</p>	<p>“Examples of such engagements include: An audit of specific elements, accounts or items of a financial statement. Performance assurance on a company’s key performance indicators.” Could additional (more recent) examples be included?</p>	<p>Suggest additional examples be added to this section including reports that may be in the public domain. For example, sustainability reports.</p>
<p>R900.20</p>	<p>The original text in 291.19 says “the members of the assurance team and the firm shall be independent of the party responsible for the subject matter information....<u><i>In addition</i></u>, an evaluation shall be made of any threats the firm has reason to believe are created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter (<u><i>emphasis added</i></u>).”</p>	<p>Suggest the revised provision similarly read “(a) the members of the assurance team... <u><i>and</i></u> (b) an evaluation shall be made” (i.e. sentence structure should be the same as R900.19 and R900.21 which have similar meaning).</p>
<p>900.22 A1</p>	<p>Second sentence revises the original text as follows: “In determining whether it is necessary to apply the provisions in this section to each responsible party in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a</p>	<p>Suggest the following language: “In determining whether it is necessary to apply the provisions in this section to each responsible party in such engagements, the firm may take into account certain matters, including whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a threat to independence that is not trivial and</p>

	<p>threat to independence that is not trivial and inconsequential in the context of the subject matter information.”</p> <p>Splitting this section into two sentences does not seem necessary.</p>	<p>inconsequential in the context of the subject matter information.”</p>
900.30 A1	<p>The first sentence revises the original text as follows:</p> <p>The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement.</p>	<p>The original text (“with respect to the particular engagement”) is clearer and it allows that there might be multiple engagement periods. Suggest reinstating extant language.</p>
R900.32	<p>Revised text eliminates the following safeguard previously available under Section 291.32:</p> <p>“Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.”</p> <p>Furthermore Section 400.3214 A1 provides as follows:</p> <p>Examples of actions that might be safeguards to address threats to independence include:</p> <p>Not including individuals who provided the non-assurance service as members of the audit team.</p>	<p>Suggest that Section 900.32 should align to Section 400.32 and the safeguard be re-instated.</p>

	<p>Having a professional accountant review the audit and non-assurance work as appropriate.</p> <p>Engaging another firm to evaluate the results of the non-assurance service.</p> <p>Having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.</p>	
R900.51, R900.52	<p>These provisions revise the original text as follows:</p> <p>If the firm determines that it cannot take action cannot be taken to satisfactorily address the consequences of the breach, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate. The firm shall also, and take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.</p>	<p>Revision suggests that only the firm can take action to address the consequences of a breach, or the engagement must be terminated. We understand the goal of removing the passive voice, but it appears to exclude the possibility that the client rather than the firm may be able to take satisfactory action? Same comment for R900.52.</p>
R910.8	<p>R910.7 A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:</p> <p>a) The firm; or</p>	<p>Suggest the structure of the provision be parallel to R910.7 – seems to be the same meaning.</p>

	<p>b) An assurance team member or any of that individual's immediate family.</p> <p>R910.8 When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.</p>	
911.6 A2	<p>The safeguard in the last sentence reads, "If the loan is to a firm, the reviewing professional might be someone from a network firm."</p> <p>The original text in Section 291.113 specifies that this must be a "professional accountant from a network firm that is neither involved with the assurance engagement nor received the loan."</p>	Consider whether the caveats included in the extant language should be incorporated in this section.
R920.5	<p>The last paragraph of extant text 291.118 is eliminated, so that "close business relationships" by immediate family members is not addressed. (IFM is only addressed in the "buying goods and services" section). The resulting text does not specifically address non-purchase-related business relationships by IFMs.</p>	Address business relationships between Immediate Family Members and audit client, other than purchases.

921.4 A1	<p>Revised text:</p> <p>Threats might be created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client. Factors that are relevant in evaluating the level of any such threats include:</p> <p>The individual’s responsibilities on the assurance team.</p> <p>The role of the family member or other individual within the client, and the closeness of the relationship.</p>	<p>Suggest the three factors listed all be captured by bullet points, as below:</p> <p>The individual’s responsibilities on the assurance team;</p> <p>The role of the family member or other individual within the client; and</p> <p>The closeness of the relationship.</p>
924.5 A1	<p>Revised text eliminates the example, previously in Section 291.127 (4th bullet) “whether the individual was responsible for maintaining regular contact with the client’s management or those charged with governance.”</p>	<p>Suggest re-inserting the example, as the revision tends to reduce clarity rather than enhance it.</p>

#	Respondent	Detailed Comment
13.	FAR	FAR regrets not having analysed the material in enough depth to answer IESBA’s first question under the request for specific comments adequately. Since extensive changes have been made, there is a risk that a change of interpretation will follow, although this has not been the intent.
14.	FSR	<i>Supports the comments made by Accountancy Europe.</i>
15.	GTI*	<i>The provisions for Part C of the extant Code, as revised in the close-off document for Part C Phase 1 (see Sections 200-270 in Chapter1)?</i>

#	Respondent	Detailed Comment
		<p>GTIL does not believe the proposals have resulted in any unintended changes to the provisions for Part C of the extant Code, as revised in the close-off document for Part C Phase 1.</p> <p><i>The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)?</i></p> <p>GTIL does not believe the proposals have resulted in any unintended changes to the NOCLAR provisions.</p> <p>However, with respect to proposed Section R360.32, we believe the Board’s initial proposal would be strengthened by requiring professional accountants performing non-audit services for an audit client of a network firm to communicate the matter to the network firm except where prohibited by law. If a professional accountant performing non-audit services for an audit client of a network firm is aware of NOCLAR or suspected NOCLAR but does not communicate the matter to the network firm, then the auditor is conducting an audit with incomplete information with the consequent potential to impair audit quality. Furthermore, another consequent of not disclosing the matter is the engagement partner may not be able to comply with applicable laws, regulations and professional obligations, an outcome that ultimately does not serve the public interest.</p> <p><i>The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)?</i></p> <p>GTIL does not believe the proposals have resulted in any unintended changes to the revised provisions regarding long association.</p> <p><i>The provisions addressing restricted use reports in the extant Code (see Section 800 in Chapter 4)?</i></p> <p>GTIL does not believe the proposals have resulted in any unintended changes to provisions addressing restricted use reports in the extant Code.</p> <p><i>The provisions relating to independence for other assurance engagements (Part 4B in Chapter 5)?</i></p> <p>GTIL does not believe the proposals have resulted in any unintended changes to provisions relating to independence for other assurance engagements.</p>
16.	HICPA	<p>We consider that the proposals align with the conclusions made by the IESBA under phase 1 of the Structure of the Code project and have not resulted in unintended changes in the meaning of the existing Code.</p>
17.	ICAEW	<p>The provisions for Part C of the Extant Code, as revised in the close-off document for Part C Phase 1 (see Sections 200-270 in Chapter 1)?</p>

#	Respondent	Detailed Comment
		<p>1. Paragraph 200.5 A3 begins with ‘All professional accountants have a responsibility to act in the public interest.’ This was not in the original consultation on revising what was then Part C and is not consistent with the discussion on the public interest in s100, which discusses the accountancy profession having a duty to act on the public interest, and individual professional accountants following the code. Extra wording that is unnecessary and inconsistent with other parts of the Code does not meet the objective of the restructuring to improve clarity. If an introductory sentence is necessary, 260.7 A1 provides one that is consistent with s100.</p> <p>2. R210.5 appears to suggest that circumstances creating a conflict of interest may only arise out of a specific ‘activity’. We believe that conflicts can also arise ‘passively’ over the course of a business relationship. The revised wording therefore changes the analysis of potential conflicts.</p> <ul style="list-style-type: none"> • The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)? <p>3. No. The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)</p> <p>4. No. The provisions addressing restricted use reports in the extant Code (see Section 800 in Chapter 4)?</p> <p>5. Much of the purpose of the rework was to get away from the ‘statement by indirect implication’ style that is featured in much of the current code. 400.5 states that the independence sections use ‘firm’ for ease of reference. It also states that firms are required by ISQC1 to assign responsibilities for particular actions. Is it 100% clear from that that what 400.5 seems to be saying is that where ‘firm’ is used in the context of someone having to do something, ‘firm’ means whoever the firm has assigned to undertake that type of requirement. The provisions relating to independence for other assurance engagements (Part 4B in Chapter 5)?</p> <p>6. 900.3 refers to the performance of assurance engagements by firms. While this is appropriate for audits, it is quite possible that other assurance engagements might be performed by individuals, not acting as firms. The basic construct of the paragraph is reasonable, but there should perhaps be an explanation that ‘firm’ could include an individual in such circumstances.</p> <p>7. For consistency, R900.17 should state ‘evaluate <i>and address</i>’</p>

#	Respondent	Detailed Comment
		<p>8. 900.17A1 refers to network firms being 'discussed' in R400.50 to 400.5A1. 'Discussed' leaves it unclear as to how precisely to apply those paragraphs here. R400.50 to 400.5A1 includes a number of specific requirements, but 900.17 implies a much lighter touch is appropriate in part 4B.</p> <p>9. R900.33 The requirement in R900.33 to accept engagements only if various actions are completed is presented as an exception to R900.32. We are not sure that this is an exception: R900.32 covers pre-engagement work that can be terminated (and seems to presuppose such termination). R900.33 however, addresses situations where the pre-engagement work cannot be terminated.</p> <p>10. If R911.5 applies to clients that are not a bank or similar institution this should be clarified.</p> <p>11. We believe R524.9 might change the requirement of the extant code. References 'Senior or Managing Partner' removed and we are left only with a reference to CEO. We do not believe that the roles of the partners above are necessarily equivalent to that of a CEO. Given the nature of the accounting profession and firm structures retention of the previous wording is preferable. A similar issue arises with the removal of 'key audit partner' from the extant 290.139 whereas 524.10 again only applies to the CEO as above.</p> <p>12. 601.5 A1 sets out actions that might be safeguards to address the self-review threats created when providing accounting and bookkeeping services to an audit client include. These include using professionals who are not audit team members to perform the work. The extant wording does not require professionals, merely individuals. Whilst we believe it important to promote professionalism this does change the application somewhat and it requires a definition of 'professional'. It is conceivable that, for example, using a junior bookkeeper who is not a member of a professional body could address the self-review threat described in the extant code but the extent to which such a person would be regarded as 'professional' would ultimately be a matter of opinion.</p> <p>13. Re Q1 see also paragraphs 2 and 3 above and the appendix to this response.</p>
18.	ICAEW SW TAC	We did not identify any unintentional changes to meanings, ultimately this will be tested in practice.
19.	ICAP	<p>We understand that the restructuring of the provisions of the extant Code of ethics under IESBA's Structure Project is aimed to provide and enhance; clarity, understandability and usability of the Code, without changing its meaning.</p> <p>We support IESBA's initiative to restructure the Code, and note that no un-intended changes have been made in the</p>

#	Respondent	Detailed Comment
		<p>meaning of provisions of extant code and revised provisions.</p> <p>In relation to the NOCLAR provisions contained in Sections 260 and 360 of Chapter 2, we would like to highlight that said sections are under deliberation of the relevant committee of ICAP.</p> <p>We believe that these provisions reflect and require significant additional measures. Accordingly, implementation of NOCLAR provisions in Pakistan environment is under deliberation and consultation.</p>
20.	ICAS	<p>RESPONSES TO THE SPECIFIC QUESTIONS</p> <p>The provisions for Part C of the Extant Code, as revised in the close-off document for Part C Phase 1 (see Sections 200-270 in Chapter 1)?</p> <p>1. <u>Paragraph 200.4</u></p> <p>“In this Part, the term “professional accountant” refers to:</p> <p>(a) Professional accountants in business; and</p> <p>(b) Professional accountants in public practice when performing professional activities pursuant to the professional accountant’s <u>employment or ownership relationship</u> with their firm. More information on when Part 2 might be applicable to professional accountants in public practice is set out in R120.4, 120.4 A1, R300.5 and 300.5 A1.”</p> <p>Reference to only “employment or ownership” does not capture contractors.</p> <p>2. <u>Paragraph R200.5</u></p> <p>Paragraph 300.6 in the extant Code has been replaced by paragraph R200.5 in the restructured Code. Paragraph 300.6 states: <i>“A professional accountant in business shall not knowingly engage in any business, occupation, or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.”</i></p> <p>Whilst we are supportive of the objectives of the restructure project we are concerned that the direct immediate sentiment of paragraph 300.6 appears to have been lost in the new paragraph R200.5.</p> <p>3. <u>Paragraph 200.5A3</u></p> <p>We agree with the thinking in paragraph 200.5A 3 in that IESBA, in adding the first sentence (“All professional accountants have a responsibility to act in the public interest”) is trying to emphasise that <u>all</u> professional accountants regardless of what level they are in the organisation (i.e. not just senior professional accountants) have ethical</p>

#	Respondent	Detailed Comment
		<p>responsibilities. However, in light of our comments above regarding public interest, perhaps instead of “All professional accountants have a responsibility to act in the public interest”, IESBA could say something along the lines that all professional accountants have individual responsibility to uphold the fundamental ethics principles, regardless of what level they are in the organisation, and must be ethical leaders.</p> <p>4. <u>Paragraph 200.6A4</u> <i>“A professional accountant’s evaluation of the level of a threat might be impacted by the work environment within the employing organization and its operating environment. For example:</i></p> <ul style="list-style-type: none"> • <i>Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.</i> • <i>Policies and procedures to empower and encourage employees to communicate ethical issues that concern them to senior levels without fear of retribution.”</i> <p>Should “senior levels” not be better explained – “senior levels of management”?</p> <p>5. <u>Paragraph R200.9</u> <i>“If a professional accountant communicates with individuals who have management responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.”</i></p> <p>We believe that the above text is ambiguous, and may be viewed differently by different readers.</p> <p>6. <u>Section 210 – Conflicts of Interest</u> In Section 210 – conflicts of interest – there is no reference to the “reasonable and informed third party” test which is contained in paragraph 310.3 of the extant Code – we would prefer that the “reasonable and informed third party test” is specifically mentioned in this section as it was previously. Also, where “Reasonable and informed third party” is referred to in the Code – for example, paragraphs R260.18, R360.21 and R900.51- this should refer back to the “reasonable and informed third party test” in paragraph 120.5A1 for clarity.</p> <p>7. <u>Paragraph 210.8 A3</u> <i>“If such disclosure or consent is not in writing, the professional accountant is encouraged to document:</i></p> <p>(a) <i>The nature of the circumstances giving rise to the conflict of interest;</i></p>

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		<p>(b) <i>The safeguards applied to address the threats; and</i></p> <p>(c) <i>The consent obtained.”</i></p> <p>Is there not a need to mention that recording of the timing of events could be important?</p> <p>8. <u>Paragraph 210.10 A1</u></p> <p><i>“A professional accountant might encounter other threats to compliance with the fundamental principles, for example, when:</i></p> <ul style="list-style-type: none"> • <i>Preparing or presenting financial information as a result of undue pressure from others within the employing organization; or</i> • <i>Financial, business or personal relationships that immediate or close family members of the professional accountant have with the employing organization.</i> <p><i>Requirements and application material relevant to such threats is set out in Sections 220, 240 and 270.”</i></p> <p>Does the second bullet make sense? Recommendation, replace proposed wording with: – “Immediate or close family members of the professional accountants have financial, business or personal relationships with the employing organization.”</p> <p>9. <u>Paragraph 220.11 A1</u></p> <p><i>“Actions that might be appropriate include:</i></p> <ul style="list-style-type: none"> • <i>Consulting the policies and procedures of the employing organization (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.</i> • <i>Discussing concerns that the information is misleading with the professional accountant’s supervisor and/or the appropriate level(s) of management within the accountant’s organization or those charged with governance and requesting such individuals to take appropriate action to resolve the matter. Such action might include:</i> <ul style="list-style-type: none"> o <i>Having the information corrected.</i> o <i>If the information has already been disclosed to the intended users, informing them of the correct information.”</i> <p><i>In situations where the misleading information might involve non-compliance with laws and regulations, Section 260 sets</i></p>

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		<p><i>out requirements and application material on how to respond to such situations.”</i></p> <p>In the last sentence should it not be “involves or might involve...” to highlight that it could be actual or suspected non-compliance with laws and regulations.</p> <p>10. <u>Paragraph R230.4</u></p> <p><i>“A professional accountant shall not intentionally mislead an <u>employer</u> as to the level of expertise or experience possessed.”</i></p> <p>Should it just be “an employer” - what if the professional accountant is a contractor or NED?</p> <p>11. <u>Paragraph R230.5</u></p> <p><i>“If threats to a professional accountant’s ability to act with sufficient expertise cannot be addressed, the accountant shall determine whether to decline to perform the duties in question. If the professional accountant determines that declining is appropriate, the accountant shall communicate the reasons.”</i></p> <p>Should the reference to the threat not be to “professional competence and due care” rather than just “expertise”? For example, having the necessary expertise does not remove the threat of having insufficient time for performing or completing the relevant duties.</p> <p>12. <u>Paragraph 240.2</u></p> <p><i>“A professional accountant having a financial interest, or knowing of any financial interests held by others, might create threats. Self-interest to compliance with the principles of objectivity or confidentiality might, for example, be created where there is a motive or an opportunity to manipulate price-sensitive information.”</i></p> <p>Does this not also create a threat to professional behaviour – possibly illegal use of confidential information i.e. potentially leading to insider trading?</p> <p>13. <u>Paragraph 270.4 A3</u></p> <p><i>“Factors that are relevant in evaluating the level of threats created by pressure include:</i></p> <ul style="list-style-type: none"> <i>• The intent of the individual who is exerting the pressure and the nature and extent of the pressure.</i> <i>• The application of laws, regulations, and professional standards to the circumstances.</i> <i>• The culture and leadership of the employing organization including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that employees will act ethically. For example, a corporate</i>

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		<p><i>culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.</i></p> <ul style="list-style-type: none"> • <i>Policies and procedures, if any, that the employing organization has established, such as ethics or human resources policies that address pressure.”</i> <p>In the first bullet should this not be expanded to “individuals and or entities...” This is backed by the content of paragraph 270.4 A6:</p> <p><i>“An action that might eliminate a threat created by pressure is the professional accountant’s request for a restructure of, or segregation of certain responsibilities and duties so that the accountant is no longer involved with the individual or entity exerting the pressure. This might be appropriate only when doing so would address the threat created by the pressure. For example, if the accountant is pressured in relation to a conflict of interest, the threat to compliance with the fundamental principle created by the pressure might be addressed when the accountant avoids being associated with the matter creating the conflict.”</i></p> <p>14. <u>Paragraph 270.4 A4</u></p> <p><i>“Consultation with:</i></p> <ul style="list-style-type: none"> • <i>A colleague, superior, human resources personnel, or another professional accountant;</i> • <i>Relevant professional or regulatory bodies or industry associations; or</i> • <i>Legal counsel might assist the professional accountant understand the factors that are relevant in evaluating the level of the threat.</i> <p><i>The principle of confidentiality applies in communications with external parties.”</i></p> <p>Instead of “factors” should it not be “facts and circumstances” in line with the terminology used in Section 120.</p> <p>15. <u>Paragraph R270.5</u></p> <p><i>“If the professional accountant identifies and determines that the threat created by pressure is not at an acceptable level, the accountant shall address that threat by:</i></p> <ol style="list-style-type: none"> (a) <i>Eliminating the circumstances, interests or relationships, that are creating the threats; including resigning from the employing organization;</i> (b) <i>Applying safeguards, where available or capable of being applied; or</i>

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		<p>(c) <i>Declining or ending the specific professional activity.</i>"</p> <p>In relation to point (a) we view resignation as the “nuclear” option and this does not necessarily serve the public interest. We would rather the wording was: (a) Eliminating the circumstances, interests or relationships, that are creating the threats. This may in extreme situations including resigning from the employing organization.” This would also then be more in line with the wording in the requirements and application material at R220.13 and R260.18.</p> <p>16. <u>Paragraph 270.5 A1</u></p> <p><i>“The professional accountant is also encouraged to document:</i></p> <ul style="list-style-type: none"> • <i>The facts.</i> • <i>The communications.</i> • <i>The courses of action considered.</i> • <i>The parties with whom these matters were discussed.</i> • <i>How the matter was addressed.”</i> <p>Is there a need to spell out that timing should be documented, or is this covered by “the facts”?</p> <p>The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)?</p> <p>17. <u>Paragraph R260.6</u></p> <p><i>“In some jurisdictions, there are legal or regulatory provisions governing how professional accountants are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:</i></p> <p><i>(a) Any requirement to report the matter to an appropriate authority; and</i></p> <p><i>(b) Any prohibition on alerting the relevant party prior to making any disclosure</i></p> <p><i>260.6 A1 A prohibition on alerting the party prior to making any disclosure might arise, for example, pursuant to anti-money laundering legislation.”</i></p> <p>We would prefer for these paragraphs to be more upfront.</p>

#	Respondent	Detailed Comment
		<p>18. <u>Paragraph 260.20 A2</u></p> <p>“The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the senior professional accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:</p> <ul style="list-style-type: none"> • The employing organization is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts). • The employing organization is regulated and the matter is of such significance as to threaten its license to operate. • The employing organization is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the employing organization’s securities or pose a systemic risk to the financial markets. • It is likely that the employing organization would sell products that are harmful to public health or safety. • The employing organization is promoting a scheme to its clients to assist them in evading taxes.” <p>The last bullet - “The employing organization is promoting a scheme to its clients to assist them in evading taxes” - appears more suited to a professional practice firm. We believe a better example for professional accountants in business would be: <i>“Pressure to structure a transaction to evade tax”</i>.</p> <p>19. In various places within these sections references are made to the “employment organisation”. We noted in our response to the NOCLAR Exposure Draft (dated 3 September 2015): “We are not convinced that the proposed changes cover situations where the professional accountant may be acting in a sub-contracted role, that is, where the employing organisation makes use of sub-contracted labour. Additionally, in terms of section 360, are non-executive directors (NEDs) within the scope of this guidance? NEDs, in the UK, are not normally classified as “employees”. Is the intention to define “employing organisation” within the revised Code? Paragraph 36 of the NOCLAR Explanatory Memorandum states: “The revised proposals are intended to cover only situations where the PA has a direct (contractual) relationship with a client (such as through an audit or other assurance engagement or the provision of non-assurance services), or for PAIBs, where there is an employment relationship.” We are not convinced that NEDs are captured, nor are professional accountants engaged on a sub-contract basis.”</p> <p>We therefore welcome the addition of paragraph 260.8 A1 which states:</p>

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		<p><i>“The employing organization’s management, with the oversight of those charged with governance, is responsible for ensuring that the employing organization’s business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:</i></p> <p><i>(a) The employing organization;</i></p> <p><i>(b) An individual charged with governance of the entity;</i></p> <p><i>(c) A member of management; or</i></p> <p><i>(d) Other individuals working for or under the direction of the employing organization.”</i></p> <p>This paragraph seems to cover contractors in point (d). Our reading of this paragraph being that this establishes a responsibility on the employing organisation’s management, and those charged with governance, for ensuring that both the organisation’s employees, and contractors, conduct their activities in accordance with laws and regulations.</p> <p>However, when it comes to specific paragraphs – for example paragraph 260.12 A1 - it is not clear whether a sub-contractor or NED, for whom the organisation is not an employer, would be within the scope:</p> <p>260.12 A1 – “A senior professional accountant is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant is not expected to have a level of understanding of laws and regulations greater than that which is required for the accountant’s role within the <u>employing organization</u>. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.”</p> <p>We therefore believe it would be clearer if the term “employing organisation” could be clearly defined.</p> <p>We also note that there might be other paragraphs where this comment is also relevant.</p> <p>The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)?</p> <p>20. <u>Section 540 - Long Association of Personnel (including partner rotation) with an audit client</u></p> <p>The “Other considerations” paragraphs at R540.20 are tagged on at the end of Section 540 after the paragraphs on “cooling off”, and yet they discuss matters which should be considered when considering the “time-on” period.</p> <p>We believe these paragraphs should be added under “Audits of public interest entities” (paragraphs R540.6 to R540.9) so that it is clear these matters should be thought about as part of the “time-on” considerations.</p> <p>21. <u>Paragraph 540.1</u></p>

#	Respondent	Detailed Comment
		<p>As we noted in our response to the <i>IESBA Exposure Draft: Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments</i> dated 25 April 2017:</p> <p><i>“Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.”</i></p> <p>Is it just independence as opposed to the fundamental principles and independence? Likewise, at paragraph 940.1, 800.1, 905.1, 906.1 and 907.1.</p> <p>22. <u>Paragraph 540.6 A1</u></p> <p><i>“In calculating the time-on period, the count of years cannot be restarted unless the individual ceases to act in any one of the roles in paragraph R540.6(a) to (c) for a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.10 to R540.12 as applicable to the role in which the individual served in the year immediately before ceasing such involvement. For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.13.”</i></p> <p>We appreciate that the subject matter of this paragraph is complex, however we believe the wording of this paragraph could be simplified to aid understanding, and also ultimately with translation.</p> <p>23. <u>Paragraph 907.4 A2</u></p> <p><i>“An example of an action that might be a safeguard to address threats created by actual or threatened litigation is having a <u>professional review</u> the work performed.</i></p> <p><i>If the litigation involves an assurance team member, an action that might eliminate those threats is removing that individual from the assurance team.”</i></p> <p>We would prefer that the reference to “a professional review” be made more specific to clarify that it is a professional with the appropriate or relevant expertise who should review the work performed. For example, if it is an actuarial matter it is a professional with actuarial expertise who should be performing the review.</p> <p>24. <u>Paragraph R910.8</u></p>

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		<p><i>“When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member nor any of that individual’s immediate family shall hold a direct or material indirect financial interest in that entity.”</i></p> <p>We believe this paragraph could be made clearer by making the following amendments:</p> <p><i>“When an entity has a controlling interest in the assurance client and <u>that assurance</u> the client is material to the entity, neither the firm, nor an assurance team member nor any of that individual’s immediate family shall hold a direct or material indirect financial interest in that entity.”</i></p> <p>The provisions addressing restricted use reports in the extant Code (see Section 800 in Chapter 4)?</p> <p>25. <u>Section 800 - Reports that include a restriction on use</u></p> <p>We believe that the wording in extant paragraphs 290.500 to 290.514 more clearly describes what firms ought to do if a report includes a restriction on use and distribution.</p> <p>The new Section 800 often refers to “Part 4A <u>(excluding this section)</u>,” however when reading section 800 we believe use of this term does not always make sense, and could lead to confusion, in the paragraphs within which it is used. We suggest IESBA review this section again to ensure the requirements and application material is clear.</p> <p>For example, we note paragraph R800.3:</p> <p><u>“A firm might issue a report on an audit of special purpose financial statements which includes a restriction on use and distribution. The independence requirements that apply in respect of such as an engagement shall only be eligible for the modifications to Part 4A (excluding this section) that are permitted by this section if:....”</u></p> <p>Whereas paragraph 290.500 of the extant Code states the following which we believe is much clearer than the underlined sentence above: “The independence requirements in Section 290 apply to all audit engagements. However, in certain circumstances involving audit engagements where the report includes a restriction on use and distribution, and provided the conditions described in 290.501 to 290.502 are met, the independence requirements in this section may be modified as provided in paragraphs 290.505 to 290.514.”</p> <p>Similarly, paragraph R.800.7 states: “When the firm performs an eligible audit engagement, references to audit client in Part 4A (excluding this section) do not need to include its related entities.” We argue simply by saying: “When the firm performs an eligible audit engagement, references to audit client in <u>Part 4A (excluding this section)</u> do not need to include</p>

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		<p>its related entities” makes the sentence clearer.</p> <p>We also note that extant paragraph 290.506 states the following: “When the conditions set out in paragraphs 290.500 to 290.502 are met, references to audit client <u>do not include its related entities.</u>”</p> <p>This appears to be a slightly different meaning to that in new paragraph R.800.7 above.</p> <p>The provisions relating to independence for other assurance engagements (Part 4B in Chapter 5)?</p> <p>26. <u>Section 910 – Financial interests</u></p> <p>In our response to ‘<i>Improving the Structure of the Code of Ethics for Professional Accountant – Phase 1</i>’ we noted: “We are not convinced that it is an improvement to have the “financial interests – other circumstances” all lumped in together. It might be better to have separate individual sections.”</p> <p>We reiterate this comment noting that, whilst Section 921 “Family and business relationships” has clear sections distinguishing between the application material for “immediate” and “close” family, paragraph 910.11 “Financial Interests – Other circumstances” discusses “close family” within “Other circumstances”, along with the requirement and application material for financial interests held “by other individuals”. We believe it would be more helpful if there were separate sub-sections for “close family” and “other individuals”. The distinction between “close” and “immediate” family may then be more obvious to users.</p> <p>Further, in our response to ‘<i>Improving the Structure of the Code of Ethics for Professional Accountant – Phase 1</i>’ we noted: Is there an equivalent to current paragraph 290.117 re an inadvertent violation of financial interest requirements?</p> <p>27. <u>Section 920 - Business relationships</u></p> <p>In paragraph R920.5, “immediate family members” are not specifically mentioned in this paragraph but are discussed in extant paragraph 291.118. We believe guidance regarding “immediate family members” should be specifically mentioned in this paragraph.</p> <p>28. <u>Section 924 - Employment with an assurance client</u></p> <p>We question whether new paragraph 924.5 A3 should be denoted as a “requirement” paragraph. We note the paragraph opens with saying: “The requirement to apply the conceptual framework...”</p> <p>Extant paragraph 291.128 states: “If a former partner of the firm has previously joined an entity in such a position and the entity subsequently becomes an assurance client of the firm, the significance of any threats to independence <u>shall</u> be</p>

#	Respondent	Detailed Comment
		<p>evaluated and safeguards applied when necessary, to eliminate the threat or reduce it to an acceptable level.”</p> <p>a) OTHER COMMENTS</p> <p>We would also like to note the following comments in relation to the <i>Agreed-In-Principle Text “Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1 and Proposed Revisions Pertaining to Safeguards in the Code – Phase 1”</i> for consideration.</p> <p><u>Guide to the Code</u></p> <p>We continue to be supportive of the ‘Guide to the Code’. We do however have the following specific points in relation to the Guide.</p> <p>29. <i>Paragraph 4</i></p> <p>We noted in our response to ‘<i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1</i>’, whether in relation to Part 2 whether this definition would be confusing for non-English speakers? Does it therefore include a professional accountant who is engaged or contracted by a third party <u>but not</u> in an executive or non-executive capacity?</p> <p>We also re-iterate our suggestion that moving the wording in Part 2 “<i>PAs in public practice might also find part 2 relevant to their particular circumstances</i>” to the discussion on Part 3 as such individuals might ignore the content of Part 2 based on its title and jump immediately to Part 3.</p> <p>30. <i>Paragraph 9</i></p> <p>We noted in our response to ‘<i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1</i>’ that Paragraph 7 of the Guide stated that “<i>shall</i>” means a requirement. In the extent version of the Code, Paragraph 100.4 says compliance is required unless an exception is permitted. There is no equivalent text here. There is possibly a need to refer to the content of paragraph R100.3 in this context i.e. compliance is required unless local laws or regulations preclude compliance with certain parts of the Code.”</p> <p>31. We note that in paragraph 11 of Guide to the Code in the ‘<i>Agreed in Principle Text – Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1 and Proposed Revisions Pertaining to Safeguards in the Code – Phase 1</i>’ explanation is now given as to the difference between ‘might’ and ‘may’ (this was not given in original restructuring ED). Is this a nuance which will get lost in translation?</p>

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		<p>Paragraph 10 in the Guide in <i>‘Agreed in Principle Text – Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1 and Proposed Revisions Pertaining to Safeguards in the Code – Phase 1’</i> text now says “In some situations the Code provides a specific exception to a requirement. In such a situation, the provision is designated with an “R” but uses “may” or conditional wording.”</p> <p>We would argue our point above, that the use of “might” or “may” could be lost in translation, making it unclear that compliance with the Code is required <u>unless</u> local laws or regulations preclude compliance with certain parts of the Code.</p> <p>32. In our response to <i>‘Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1’</i> we noted the following in respect of the Guide:</p> <p><i>“Paragraph 12</i></p> <p>We question whether it might be more appropriate to use a stronger word than “encouraged” in relation to the need for documentation. “</p> <p>In the <i>‘Agreed in Principle Text – Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1 and Proposed Revisions Pertaining to Safeguards in the Code – Phase 1’</i>, we note that there is now no guidance at all regarding documentation.</p> <p>We believe that the Guide should contain guidance on documentation, and would suggest re-introducing the wording contained in the <i>‘Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1’</i> Exposure Draft (“A professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.”), or the wording used in paragraphs elsewhere in the Code where documentation is discussed.</p> <p>33. <u>Professional accountant</u></p> <p>Although we understand why the term “professional accountant” is sometimes followed by use of the term “accountant”, we would prefer for a consistent approach to be adopted throughout and believe that the former term is more accurate and therefore preferable.</p> <p>34. <u>Paragraph R100.4</u></p> <p><i>“A professional accountant who identifies a breach of the Code shall evaluate the significance of the breach and its impact on the accountant’s ability to comply with the fundamental principles. The accountant shall also:</i></p>

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		<p>(a) <i>Take whatever actions might be available, as soon as possible, to satisfactorily address the consequences of the breach; and</i></p> <p>(b) <i>Determine whether to report the breach to, for example, those who might have been affected by it, a professional body or a regulator.”</i></p> <p>We believe that consideration should be given to adding in additional content in relation to whether there a need to include anything for the professional accountant to take action to mitigate the risk of another similar breach.</p> <p>35. <u>Paragraph R100.4</u></p> <p>In our response to ‘<i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1</i>’ we noted: <i>“We question whether this paragraph has a slightly different message from that contained in current Paragraph 100.10 which states: “A professional accountant may inadvertently violate a provision of this Code. Depending on the nature and significance of the matter, such an inadvertent violation may be deemed not to compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.”</i></p> <p>The current wording relates to a specific professional accountant who may inadvertently have violated a provision of the Code. The new wording potentially encompasses other professional accountants who may discover a breach of the Code. The new provision also appears to be more detailed.”</p> <p>36. <u>Paragraph 110.1</u></p> <p>We note that changes have been made to the definitions of the fundamental principles. We believe that this would be better done as a separate exercise. We accept that the approach adopted probably uses simpler language, and results in clearer wording, but do not believe that the wording of the principles should be changed, unless full consideration has been given as to whether the principles are fundamentally still fit for purpose.</p> <p>37. <u>Paragraph R112.2</u></p> <p>In our response to ‘<i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1</i>’ we noted that “bias” has been dropped from original wording in 120.2.</p> <p>38. <u>Paragraph 113.1.A2</u></p> <p>In our response to ‘<i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1</i>’ we noted:</p>

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		<p><i>“Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.”</i></p> <p>Is it just the professional environment or should it be wider and refer also to the relevant business environment?</p> <p>39. <u>Paragraph R114.1</u></p> <p>In our response to ‘<i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1</i>’ we noted: <i>“Despite our comments above, we believe the change in wording to the objectivity and professional competence and due care principles do make them clearer. We note that a lot of the confidentiality principle has been deleted although it is included separately at paragraph R114.1 later. We question whether this approach is the most appropriate.”</i></p> <p>40. <u>Paragraph 115.1 A1</u></p> <p>In our response to ‘<i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1</i>’ we noted: We note that this paragraph drops the wording “weighing all the specific facts and circumstances available to the professional accountant at that time,” which is contained in current paragraph 150.1. Is this not important wording because it would not be fair to judge someone on the basis of information which only came to light after the event? We believe that this paragraph should reflect the wording of new paragraph 120.5 A1 re “reasonable and informed third party.”</p> <p>41. <u>Paragraph 400 .6</u></p> <p>In our response to ‘<i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1</i>’ we noted: It would be good to have an explanation of what is considered to be a PIE in this introductory section. This paragraph does not currently give the detailed definition of a PIE (as per current paragraph 290.25). The definition of a PIE only appears to be in the Glossary – we believe it would be useful to include it here.</p> <p>42. <u>Paragraph R510.11</u></p> <p>In our response to ‘<i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1</i>’ we noted: We are not convinced that sections 510.9 (a) and (b) have the same meaning as the content of current paragraph 290.112. Current paragraph 290.112 states; <i>“independence is deemed not to be compromised if these interests are immaterial AND the audit client cannot exercise significant influence over the entity”</i>. Proposed section 510.9 (a) states: <i>“The financial interests are immaterial, OR, the audit client cannot exercise significant influence.”</i> We are also not</p>

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		<p>convinced that the content of paragraph 510 9 (b) reflects that of the existing section either. This remains in paragraph R510.11.</p>
21.	IDW	<p>1.1 Proposed Revisions that Obscure Clarity of Wording in the Extant Code</p> <p>We note a few instances in the ED where the original text was clearer or more precise than the proposed revised wording and where proposed changes impact the meaning:</p> <p><i>Provisions addressing long association:</i></p> <ul style="list-style-type: none"> We appreciate that the IESBA is moving away from the approach that considers the relative significance of threats to an approach to eliminate or reduce threats to an acceptable level. However, we question why the following changes are proposed to R540.5: “If a firm decides that the level of the threats are so significant that created <u>level of the threats created</u> ...” without reference to this level not being at an acceptable level – i.e., so as to retain the reference to the “degree of significance”. This applies also in respect of further paragraphs, e.g. 540.5 A1 and A2, 540.4 A3 as well as R940.5 and 940.5 A1 and A2 and 940.4 A3. The original text consistently referred to significance of the threat and so was far clearer in regard to the fact that only threats above a certain threshold (i.e., not at an acceptable level) are to be addressed. The covering letter also questions the need for consistent clarification of the application of “acceptable level” as a key criterion in applying the threats and safeguards approach, suggesting this be addressed within this project. Depending on how the IESBA decides to address this, changes along the following lines could be made: R540.5 could read: “If a firm decides that the level of the threats created exceeds an acceptable level and can only be addressed by...” or R540.5: “If a firm decides that the level of the threats created is so high that it can only be addressed by...”. In proposed 540.19 A1 the term “senior or managing partner” has been replaced with “chief executive or equivalent”. This may be less readily understood in some jurisdictions, particularly on translation. <p><i>Independence Standards</i></p> <ul style="list-style-type: none"> Extant 290.508 states: “... the relevant provisions ... apply only to the members of the engagement team, their immediate family members and close family members”. The limitation on application is precise. In contrast, the proposed requirement R800.9 (a) amends this to read: “... need only apply to ...”. This revised text could be interpreted as setting a minimum, but it may also imply that application is not necessarily limited to the persons listed. There are other instances where the phrase “... does not need to ...” is proposed (see R800.7, R800.9, and R999.7), going beyond the extant

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		<p>corresponding wording. We suggest the word “need” be deleted in each such instance.</p> <ul style="list-style-type: none"> • Although derived from 291.118 of the extant Code, proposed R290.5 excludes members of the immediate family of an engagement team member. <p>1.2 Hidden Requirements</p> <p>There are certain instances where draft application material appears to contain a requirement. Clarification is needed in the following instances:</p> <ul style="list-style-type: none"> • The wording of 210.8 A1 might imply a hidden requirement because it states “It is generally necessary ...”, as such the authority attaching to this text is not sufficiently clear. IESBA should clarify the authority (i.e., can a safeguard be deemed effective or ineffective if full disclosure is not made to, and consent obtained from, the relevant parties in one of the various ways outlined in 210.8 A2?). Following this necessary clarification appropriate revision of this wording is also needed. • 220.7 A1 states that a requirement “... includes...”, which implies the list of inclusions are themselves requirements and so not appropriately placed within application material. In this context, we also note that 220.10 refers to fulfilling responsibilities. It is unclear whether this terminology is intended to imply a requirement (do “responsibilities” equate to requirements?). Consistent terminology would be helpful. • 220.10 A1 should read “factors to that might be considered”, otherwise there is an implication that these factors will always have to be considered and thus constitute requirements. • 260.7 A1 uses the construct “when responding to ... the objectives of the professional accountant are: ...”. This implies required behavior and mirrors requirements in this Section. We also refer to our cover letter in this context. This notwithstanding, the authority of material denoted as an objective in the application material is unclear. We do not support its inclusion in application material, since such terminology, so placed, introduces confusion as to the authority. On balance we suggest IESBA place this material in a Subsection dealing with an overall objective. Note: 360.21 A2 also refers to achievement of the professional accountant’s objectives. • The second sentence of 200.9 A1 states: “In these cases, if matters are communicated with person(s) with management responsibilities, and those persons also have governance responsibilities, the matters do not need to be communicated again with those same persons in their governance role.” This is a clarification of a requirement that itself constitutes a negative requirement. There are similar negative requirements clearly shown as requirements elsewhere in

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		<p>the restructured Code (see R800.7, R800.8). We suggest this text be moved and placed within a requirements paragraph.</p> <ul style="list-style-type: none"> • Use of the present tense in application material should be avoided, as its use makes the authority of text unclear. There is considerable inconsistency in the drafting of application material. Use of the present tense such as “Matters to consider include ...” (see 220.10 A1, 260.16 A1, 360.11 A2, 360.19 A1, 360.30A2, 360.34 A1, 360.36 A3 etc.) implies a non-exhaustive list of matters which are to be considered in all cases (i.e., implies a requirement). In similar instances the proposed text reads “the professional accountant might consider ...”, which is clear. We suggest the application material be drafted consistently avoiding use of the present tense.
22.	IRBA	<p>1.2 The IRBA has not adopted Part C of the extant Code, thus will not comment on this question. The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)?</p> <p>1.3 Comments on specific paragraphs under Section 360 are as follows:</p>

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		<p>No Extant Code</p> <p>1 S225.1</p> <p>A professional accountant in public practice may encounter or be made aware of non-compliance or suspect non-compliance with laws and regulations in the course of providing a professional service to a client.</p>	<p>Restructured Code</p> <p>R360.5</p> <p>The Professional Accountant shall apply this section regardless of the nature of the client, including whether or not it is a public interest entity.</p> <p>360.5 A1</p> <p>A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of providing a professional service to a client. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to it.</p>	<p>Comment</p> <p>The repositioning of the statement that the registered auditor “may encounter or be made aware of non-compliance with laws and regulations”, from the prominent opening paragraph to paragraph 5, results in the statement losing its emphasis.</p> <p>In the IESBA Staff Frequently Asked Questions on Responding to NOCLAR, question 12 addresses the registered auditor’s responsibility to identify NOCLAR.</p> <p>The restructured Code should do more to clarify the responsibility.</p>
		<p>2. Not required.</p>	<p>R360.30</p> <p>If the professional accountant identified or suspects that non-compliance has occurred or might occur, the accountant shall discuss the matter with</p>	<p><u>Editorial</u></p> <p>The word “accountants” should be “accountant”.</p>

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		<p>the appropriate level of management. If the accountant has access to those charged with governance, the accountants shall also discuss the matter with them where appropriate.</p>
	IRBA	<p>The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)?</p> <p>1.4 Comments on specific paragraphs under Section 540 are as follows:</p> <p>The effective date on page 61 of the Structure Exposure Draft. This is not directly related to the restructured Code. The position of the effective date at the end of this section is unusual.</p> <p>When the final amendments relating to Long Association were released, we did not envisage that this would be the permanent position of the effective date and would recommend a more traditional placement of the effective date at the end of the Code.</p> <p>The provisions addressing restricted use reports in the extant Code (see Section 800 in Chapter 4)?</p> <p>1.5 No comment.</p>

1.6 Comments on specific paragraphs under Section 900 are as follows:

1.1. Comments on specific paragraphs under Section 900 are as follows:

No	Extant Code	Restructured Code	Comment
1	<p>291.7</p> <p>Many different circumstances, or combinations of circumstances, may be relevant in assessing threats to independence. It is impossible to define every situation that creates threats to independence and to specify the appropriate action. Therefore, this Code establishes a conceptual framework that requires firms and members of assurance teams to identify, evaluate, and address threats to independence. The conceptual framework approach assists professional accountants in public practice in complying with the ethical requirements in this Code. It accommodates many variations in circumstances that create threats to independence and can deter a</p>	<p>900.6</p> <p>Part 4B describes facts and circumstances, including professional activities, interests and relationships that create or might create threats to independence. Firms are required to apply the conceptual framework to threats to independence as well as to threats to the fundamental principles that are linked to independence. Part 4B describes potential threats, and safeguards and other actions that might be appropriate to address any such threats. It also identifies some situations where the threats cannot be eliminated and there can be no safeguards to reduce the threats to an acceptable level.</p>	<p>The level of responsibility has dropped the reference to engagement team. However, under extant Section 291.7, some of those responsibilities are at the “members of assurance engagement teams” level, or “members of assurance teams” level. This would be considered a change that is outside the scope of the project.</p>

#	Respondent	Detailed Comment			
			professional accountant from concluding that a situation is permitted if it is not specifically prohibited.		
		2	291.17 Also, a determination shall be made as to whether threats to independence are created by relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement.	R900.19 b) The firm shall apply the conceptual framework set out in Section 120 to relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement.	The level of responsibility has dropped the reference to engagement team. This would be considered a change that is outside the scope of the project.
23.	ISCA	<p><u><i>Section 540: Long Association of Personnel (including Partner Rotation) with an Audit Client</i></u></p> <p>We note that the proposed paragraph 540.19A1 uses “Chief Executive or equivalent” in place of “Senior or Managing Partner” which is used in paragraph 290.164 in the January 2017 Long Association close-off document.</p> <p>Usually, the Chief Executive (or Managing Partner) is the most senior person assuming a leadership role in a firm. A Senior Partner is often not on the same level as a Chief Executive (or Managing Partner) in the hierarchy in a firm, even though the Senior Partner may also assume a leadership role in the firm. Thus, the proposed paragraph 540.19A1 may convey a narrower scope of what denotes a “leadership role” as compared to paragraph 290.164 in the January 2017 Long Association close-off document.</p> <p>We further note that the proposed paragraph 800.9A1(b) uses the phrase “at all successively senior levels above the engagement partner through to the individual who is the firm’s Chief Executive or equivalent”, which may be more appropriate in the context of the proposed paragraph 540.19A1.</p> <p>Hence, IESBA could consider the following wordings to retain the meaning of paragraph 290.164 in the January 2017</p>			

#	Respondent	Detailed Comment
		<p>Long Association close-off document and also to be consistent with the proposed paragraph 800.9A1:</p> <p>“The provisions of R540.19 are not intended to prevent the individual from assuming a leadership role in the firm, <u>such as those of all successively senior levels above the engagement partner through to the Chief Executive or equivalent</u>”.</p>
24.	JICPA	<p>We believe that the proposals in this ED have resulted in unintended changes in meaning of the provisions for Part C of the Extant Code, as revised in the close-off document for Part C Phase 1 as follows:</p> <ul style="list-style-type: none"> • In paragraph 200.1 in this ED, it is prescribed that, “This Part to be alert for such <u>facts</u> and circumstances.” However, in the close-off document, it is prescribed that “This part to be alert for such circumstances <u>and relationships</u>.” Since this project is predicated on the assumption that the meaning of any provision is not to be altered, we propose to consider changing it back to the wording of the close-off document. • In paragraph 200.1, it is prescribed that, “Therefore, professional accountants in business <u>are required to be alert for</u>” However, in the close-off document, it is prescribed that “Therefore, the professional accountant <u>is encouraged to be alert for</u>” Since this project is predicated on the assumption that the meaning of any provision is not to be altered, we propose to consider changing it back to the wording of the close-off document.
25.	KICPA	<p>Reviewing proposals and comparing them with the current standards, we found no changes in meaning of provisions.</p>
26.	KPMG*	<p>Except for the following observations, we do not believe that the proposals in this ED have resulted in any unintended changes in meaning of:</p> <p>The provisions for Part C of the Extant Code, as revised in the close-off document for Part C Phase 1 (Sections 200-270 in Chapter 1)</p> <p>We note that R220.10 includes a requirement for the professional accountant who intends to rely on the work of others to exercise professional judgment in determining what steps to take in order to fulfil the responsibilities set out in the application paragraph 220.7A1. While we question the appropriateness of cross-referencing a requirement to an application paragraph, we also note that the guidance in paragraph 220.7A1 is worded more like a requirement. We suggest the Board re-consider these paragraphs to avoid this type of cross-referencing and to clarify whether they are intended to be requirements or application material.</p> <p>The revised provisions regarding long association (Sections 540 and 940 in Chapter 3)</p>

#	Respondent	Detailed Comment
		<p>We note that the IESBA Staff are preparing a Question and Answer document (Staff Q&A) designed to highlight, illustrate or explain aspects of the revised partner rotation regime in extant Section 290, and thereby assist in their proper application. The restructured revised long association provisions are included in this Structure ED-2. We are aware that there are questions in the Staff Q&A (specifically questions related to Engagement Partner on a Subsidiary of a Public Interest Entity) that have generated a significant amount of debate as to the meaning of the requirements in the revised provisions. This debate provides some evidence that the requirements may not be well understood. Accordingly, we recommend the Board consider whether the provisions could benefit from further clarification.</p> <p>The NOCLAR provisions (Sections 260 and 360 in Chapter 2)</p> <p>We have noted a lack of clarity in the wording of requirements relating to communication of non-compliance or suspected non-compliance in group audit situations (R360.16 and R360.17) and specifically, whether the requirements extend to communicating to firms that are not part of the same network.</p> <p>In the case of a component audit, R360.16(b) requires the component engagement partner to communicate to the group engagement partner when the audit of the component's financial statements is being performed for purposes other than the group audit. It is 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.</p> <p>Similarly, R360.17 requires the group engagement partner to consider whether the matter might be relevant to one or more components and if determined to be relevant, the group engagement partner is required to take steps to have the matter communicated to those performing work at the components. Again it is not clear whether the requirement to consider relevance and follow-on actions would be required where those performing work at the components are from a firm or network that is different to that of the group engagement partner's firm or network.</p> <p>In contrast, the requirements in the case of a professional accountant performing a non-audit service are clearer in that R360.33 sets out the requirements when the service is performed for a client that is not an audit client of the professional accountant's firm or network and R360.31 and R360.32 set out the requirements when the service is performed for an audit client or component of an audit client of the firm or of the network.</p> <p>We recommend the Board consider clarifying the requirements in 360.16 and 360.17 in this context to enhance their understandability.</p>

#	Respondent	Detailed Comment
		<p>Lastly, with respect to senior professional accountants, R260.15 requires senior professional accountants to determine whether disclosure of non-compliance or suspected non-compliance to their employing organization’s external auditor is needed. Application material states that such disclosure would be made pursuant to the senior professional accountant’s duty or legal obligation to provide all information necessary to enable the auditor to perform the audit. Given this duty it is not clear what other types of factors would lead a senior professional accountant to conclude that disclosure to the external auditor is not needed. It would be helpful if application material could clarify this by providing examples.</p>
27.	MIA	<p><u>(A) Sections 260 and 360 in Chapter 2</u></p> <p><u>(i) Paragraph 360.8 A1</u></p> <p>We suggest that paragraph 360.8 A1 be modified in order to be consistent with the extant code and give greater clarity as follows:</p> <p><i>“<u>The client’s management, Management,</u> with the oversight of those charged with governance, is responsible for ensuring that the client’s business activities are conducted in accordance with laws and regulations. <u>The client’s management, Management</u> and those charged with governance are also responsible for identifying and addressing any non-compliance by:</i></p> <ul style="list-style-type: none"> <i>(a) The client;</i> <i>(b) An individual charged with governance of the entity;</i> <i>(c) A member of management; or</i> <i>(d) Other individuals working for or under the direction of the client.”</i> <p><u>(ii) Paragraph 360.14 A1</u></p> <p>We suggest that paragraph 360.14 A1 be modified in order to be consistent with the extant code and give greater clarity as follows:</p> <p>Paragraph 360.14 A1, <i>“If <u>client’s</u> management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the professional accountant might suggest appropriate sources of information or recommend that they obtain legal advice.”</i></p> <p><u>(B) Sections 540 and 940 in Chapter 3</u></p>

#	Respondent	Detailed Comment
		<p><u>(i) Paragraph R540.18</u></p> <p>We are of the view that Paragraph R540.18 should be modified in order to emphasize the mandatory requirement of the paragraph as follows:</p> <p><i>“Where a legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years <u>may shall</u> be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.10, R540.13 and R540.15(a) provided that the applicable time-on period does not exceed seven years.”</i></p> <p><u>(C) Section 800 in Chapter 4</u></p> <p><u>(i) Paragraph 800.10</u></p> <p>Paragraph R800.10 of the restructured Code is equivalent to paragraphs 290.510 and 290.511 of the extant Code. Paragraph 290.510 of the extant Code states that <i>“An evaluation shall also be made of the significance of any threats that the engagement team has reason to believe are created by financial interests in the audit client held by individuals, as described in paragraphs 290.108 to 290.111 and paragraphs 290.113 to 290.115.”</i></p> <p>Paragraph 290.510 of the extant Code makes reference to paragraphs 290.108 to 290.111 and paragraphs 290.113 to 290.115. The referencing made in paragraph R800.10 of the restructured Code is not consistent with paragraph 290.510 of the extant Code and should be modified as follows:</p> <p><i>“When the firm performs an eligible audit engagement, the firm shall evaluate and address any threats that the engagement team has reason to believe are created by financial interests in the audit client held by individuals, as set out in paragraphs R510.7(c) and (d), <u>510.7 A1</u>, R510.8, R510.10 and R510.13(c) and (d).”</i></p> <p>The referencing made in paragraph R800.11 of the restructured Code is not consistent with the paragraph 290.512 of the extant Code. Paragraph 290.512 of the current Code is read as follows:</p> <p><i>“In applying the provisions set out in paragraphs 290.106 and 290.115 to interests of the firm, if the firm has a material financial interest, whether direct or indirect, in the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, the firm shall not have such a financial interest.”</i></p> <p>In order to have the same referencing in the restructured Code, paragraph R800.11 should be modified as follows:</p>

#	Respondent	Detailed Comment
		<p><i>“When the firm performs an eligible audit engagement, the firm, in applying the provisions set out in paragraphs R510.7(a), R510.9 and R510.10 R510.13(d) to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit client.”</i></p> <p><u>(D) Part 4B in Chapter 5</u></p> <p><u>(i) Paragraph 900.12</u></p> <p>We are of the view that Paragraph 900.12 should be modified to clarify that the subject matter information is provided to the intended users in the assurance report for both situations (a) and (b) of the paragraph as follows:</p> <p><i>“In a direct reporting assurance engagement, the professional accountant either</i></p> <p><i>(a) Directly performs the evaluation or measurement of the subject matter; or</i></p> <p><i>(b) Obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. <u>The subject matter information is provided to the intended users in the assurance report.</u></i></p> <p><i><u>The subject matter information is provided to the intended users in the assurance report.</u>”</i></p> <p><u>(ii) Paragraph R900.17</u></p> <p>As it is necessary to identify, evaluate and address threat to independence, we suggest that Paragraph R900.17 be modified as follows:</p> <p><i>“When a firm performing an assurance engagement has reason to believe that a threat to independence is created by a network firm’s interests and relationships, the firm shall evaluate <u>and address</u> any such threat.”</i></p> <p><u>(iii) Paragraph 900.17 A1</u></p> <p>We noted that there is a referencing error in Paragraph 900.17 A1 and we suggest that the paragraph be modified as below:</p> <p><i>“Network firms are discussed in paragraphs R400.50 <u>400.50 A1</u> to 400.54 A1.”</i></p> <p><u>(iv) Paragraph 900.22 A1</u></p> <p>We recommend that Paragraph 900.22 A1 be modified in order to be consistent in making reference to Part 4B instead of the particular section as follows:</p>

#	Respondent	Detailed Comment
		<p><i>“In some assurance engagements, whether assertion-based or direct reporting, there might be several responsible parties. In determining whether it is necessary to apply the provisions in Part 4B to each responsible party in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the</i></p> <p><u>(ii) Paragraph R800.11</u></p> <p>The referencing made in paragraph R800.11 of the restructured Code is not consistent with the paragraph 290.512 of the extant Code. Paragraph 290.512 of the current Code is read as follows:</p> <p><i>“In applying the provisions set out in paragraphs 290.106 and 290.115 to interests of the firm, if the firm has a material financial interest, whether direct or indirect, in the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, the firm shall not have such a financial interest.”</i></p> <p>In order to have the same referencing in the restructured Code, paragraph R800.11 should be modified as follows:</p> <p><i>“When the firm performs an eligible audit engagement, the firm, in applying the provisions set out in paragraphs R510.7(a), R510.9 and R510.10 <u>R510.13(d)</u> to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit client.”</i></p> <p><u>(D) Part 4B in Chapter 5</u></p> <p><u>(i) Paragraph 900.12</u></p> <p>We are of the view that Paragraph 900.12 should be modified to clarify that the subject matter information is provided to the intended users in the assurance report for both situations (a) and (b) of the paragraph as follows:</p> <p><i>“In a direct reporting assurance engagement, the professional accountant either</i></p> <p><i>(c) Directly performs the evaluation or measurement of the subject matter; or</i></p> <p><i>(d) Obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. <u>The subject matter information is provided to the intended users in the assurance report.</u></i></p> <p><u>(ii) Paragraph R900.17</u></p>

#	Respondent	Detailed Comment
		<p>As it is necessary to identify, evaluate and address threat to independence, we suggest that Paragraph R900.17 be modified as follows:</p> <p><i>“When a firm performing an assurance engagement has reason to believe that a threat to independence is created by a network firm’s interests and relationships, the firm shall evaluate and address any such threat.”</i></p> <p><u>(iii) Paragraph 900.17 A1</u></p> <p>We noted that there is a referencing error in Paragraph 900.17 A1 and we suggest that the paragraph be modified as below:</p> <p><i>“Network firms are discussed in paragraphs R400.50 400.50 A1 to 400.54 A1.”</i></p> <p><u>(iv) Paragraph 900.22 A1</u></p> <p>We recommend that Paragraph 900.22 A1 be modified in order to be consistent in making reference to Part 4B instead of the particular section as follows:</p> <p><i>“In some assurance engagements, whether assertion-based or direct reporting, there might be several responsible parties. In determining whether it is necessary to apply the provisions in Part 4B to each responsible party in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:</i></p> <ul style="list-style-type: none"> • <i>The materiality of the subject matter information (or of the subject matter) for which the particular responsible party is responsible.</i> • <i>The degree of public interest associated with the engagement.</i> <p><i>If the firm determines that the threat created by any such interest or relationship with a particular responsible party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section in Part 4B to that responsible party.”</i></p> <p><u>(v) Paragraph 924.6 A2</u></p> <p>We noted that there is an error in Paragraph 924.6 A2 when making reference to other paragraph and the paragraph should be modified as follows:</p> <p><i>“An example of an action that might be a safeguard to address threats set out in paragraph 924.4 A1 926.4 A1 is having an appropriate individual review any significant judgments made by that individual while on the team.</i></p>

#	Respondent	Detailed Comment
		<i>An action that might eliminate those threats is removing the individual from the assurance engagement.</i>
28.	MICPA	MICPA has not noted any unintended changes in meaning of the aforementioned list of provisions.
29.	MNP	N/A
30.	NZAuASB	<p>Where suggested changes are presented, added text is underlined, deleted text is struck through.</p> <p><u>Sections 200-270 Part C Phase 1 and Section 260</u></p> <p>Ethical provisions pertaining to professional accountants in business are outside the responsibility of the NZAuASB as delegated by the XRB. Accordingly, the NZAuASB has no comment on Sections 200-270 Part C Phase 1 nor Section 260.</p> <p><u>NOCLAR Section 360</u></p> <p><i>Paragraph R360.5</i> states, “the professional accountant shall apply this section regardless of the nature of the client, including whether or not it is a public interest entity.” As drafted, this paragraph can be read that this section always applies. Rather, in the close-off NOCLAR document, it is clear that when the professional accountant encounters or is made aware of non-compliance or suspected non-compliance with laws and regulations in the course of providing a professional service to a client, the NOCLAR provisions apply. In addition, Section 360 will not apply in its entirety because the section covers two frameworks: one for audits (and reviews); and one for professional services other than audits (and reviews) of financial statements.</p> <p>The following wording may help clarify the application of the requirement:</p> <p style="padding-left: 40px;">R360.5 The professional accountant shall apply this section regardless of the nature of the client, including whether or not it is a public interest entity. <u>if the accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance.</u></p> <ul style="list-style-type: none"> • <u>Subsection XX applies if the accountant is engaged to perform an audit of financial statements.</u> • <u>Subsection XY applies if the accountant is engaged to perform professional services other than audits of financial statements.</u> <p><i>Paragraphs R360.26 and R360.37</i></p> <p>The NZAuASB is concerned that the “R” label is being used in many instances to identify exceptions to a requirement. Exceptions are generally expected to be rare and should not be over-emphasised. Rather than being labelled as “R”</p>

#	Respondent	Detailed Comment
		<p>paragraphs, exceptions could be drafted as application to the requirement. Paragraphs R360.26 and R360.37 are examples of exceptions to the requirement.</p> <p>Paragraphs R360.26 and R360.37 permit the professional accountant to make a disclosure to an appropriate authority when the professional accountant has determined that this is an appropriate course of action, without being in breach of the duty of confidentiality. The following suggested drafting separates the application material from the requirement and also makes use of the clarity drafting conventions.</p> <p>R360.26 (and R360.37) If the professional accountant determines that disclosure to an appropriate authority is an appropriate course of action in the circumstances, this is not a breach of confidentiality under sub-section 114 of the Code. When making such disclosure, Tthe accountant shall</p> <ul style="list-style-type: none"> • act in good faith and exercise caution when making statements and assertions; and • The accountant shall also consider whether it is appropriate to inform the client of the accountant's intentions before disclosing the matter. <p>Application paragraph (either before or after R360.26 and R360.37) <u>If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this is not a breach of confidentiality under sub-section 114 of the Code.</u></p> <p><u>Long Association Sections 540 and 940</u></p> <p><i>Paragraph 540.2</i> This paragraph is similar to extant paragraph 290.148 which also acknowledges that familiarity and self-interest threats may increase in significance when an individual is involved in an audit engagement over a long period of time. The risk of the threat increasing in significance is particularly relevant, as the professional accountant will need to consider the cumulative effect of the risk each year. Removal of this concept may have unintended consequences. We suggest amending paragraph 540.2 as follows:</p> <p>When an individual is involved in an audit engagement over a long period of time, f<u>Familiarity and self-interest threats might be created and might increase in significance when an individual is involved in an audit engagement over a long period of time.</u></p> <p><i>Paragraph R540.6</i> This paragraph starts “subject to paragraphs R540.7 to R540.9”. This construct adds inappropriate emphasis to exceptions that are expected to occur only in very limited circumstances. In the extant closing document, the rule is established and then much later on the exception is listed. Reading the exception first seems to place unnecessary</p>

#	Respondent	Detailed Comment
		<p>attention on the exception. In addition, paragraphs R540.7 and R540.9 are exceptions to the requirement and are not themselves requirements. Labelling these paragraphs with “R” may over-emphasise what are expected to be rare exceptions. The NZAuASB recommends that “subject to paragraphs R540.7 to R540.9” at the beginning of paragraph R540.6 be deleted. In addition, the NZAuASB recommends that paragraphs R540.7 and R540.9 be renumbered as application paragraphs. Our suggested changes to R540.6 are as follows:</p> <p style="padding-left: 40px;">Subject to paragraphs R540.7 to R540.9, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):...</p> <p><u>Section 800 Restricted Use Reports</u></p> <p><i>Restriction on Use and Distribution</i></p> <p>Section 800 refers to the restriction on use <i>and</i> distribution. Throughout the International Standards on Auditing, the term used is “restriction on distribution or use”. In some cases, it may not be possible for the professional accountant or the firm to restrict the distribution of the report; for example, a regulator may require certain entities to place the special purpose financial statements on public record. The NZAuASB, therefore, recommends changing “and” to “or” throughout this section. Such a change would also eliminate the inconsistency in terminology between the IAASB and the IESBA standards.</p> <p><i>Paragraphs R800.3- 800.3 A2</i> are difficult to read and understand. Paragraph R800.3 starts by stating that there might be an exception, and requiring certain circumstances to exist if that exception is to be applied. Then, the sentence, “[t]he independence requirements that apply in respect of such an engagement shall only be eligible for the modifications to Part 4A (excluding this section) that are permitted by this section if:...” is overly complex. We suggest the following revisions to paragraphs R800.3-800.3 A2:</p> <p style="padding-left: 40px;">R800.3 A firm might issue <u>When a firm issues [or intends to issue]</u> a report on an audit of special purpose financial statements which includes a restriction on use and distribution. <u>distribution or use</u>, The independence requirements that apply in respect of such an engagement shall only be eligible for modifications to the requirements of Part 4A (excluding this section) that are permitted by this section-if. <u>Such modifications shall apply only if the intended users of the report</u></p>

#	Respondent	Detailed Comment
		<p>(a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; <u>Understand the purpose and limitations of the report;</u> and</p> <p>(b) The intended users of the report understand the purpose and limitations of the report and eExplicitly agree to the application of the modified independence requirements.</p> <p>Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.</p> <p>[Paragraph 800.3 A1 would remain unchanged.]</p> <p>[new paragraph following paragraph 800.3 A1] <u>The firm shall communicate with the intended users of the report regarding the modified independence requirements to be applied. Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.</u></p> <p><u>800.3 A2 Such communication may be made to intended users, for example, in an engagement letter. Where the intended users are a class of users, f</u>For example, where the intended users are lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm may make the users aware of the modified independence requirements by, for example, making the firm’s engagement letter available to the members of the group. -of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.</p> <p><i>Paragraph R800.9(b)</i> – requires the firm to identify, evaluate and address any threats to independence that might be created by interests and relationships. Use of “might” suggests that the firm is not required to identify, evaluate and address threats that are created, rather only those for which there is a possibility. The NZAuASB questions whether this is intended. To remove the ambiguity, the following wording is suggested:</p> <p>The firm shall identify, evaluate and address any threats to independence that might be created by interests and relationships as set out in Sections...</p>

#	Respondent	Detailed Comment
		<p><i>Paragraph R800.9(c)</i> The firm is required to apply the conceptual framework to identify, evaluate and address threats to independence in relation to an audit engagement.² In contrast, paragraph R800.9(c) requires the firm to evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement. It is unclear from the requirement whether the firm is also required to identify such threats, or whether this requirement relates to threats that the engagement team becomes aware of. If the latter is intended, using the words “of which the engagement team is aware” may be clearer than “has reason to believe”. Alternatively, the following wording may be clearer if the intention is that the firm is also required to identify the threats:</p> <p style="padding-left: 40px;">The firm shall <u>identify</u>, evaluate and address any threats that the engagement team has reason to believe are <u>or might</u> be created by...</p> <p><u>Part 4B Independence for other assurance engagements</u></p> <p><i>Paragraph 900.1</i> provides examples of assurance engagements other than audit and review engagements. An example of such an engagement is an audit of specific elements, accounts or items of a financial statement. This seems counter-intuitive and, without further clarification, is very confusing. If an auditor is performing an audit of specific elements, accounts or items of a financial statement in accordance with International Standards on Auditing, it is not clear why Part 4B, <i>Independence – Other Assurance Engagements</i>, rather than Part 4A, <i>Independence – Independence for Audits and Reviews</i>, should apply.</p> <p><i>Paragraphs 900.7 – 900.12</i> Several paragraphs in the introduction to Section 900 are devoted to describing an assurance engagement. The NZAuASB recognises that this material is in the extant Code; however, with the clarity objectives in mind, we question whether this introductory material is necessary. There is no equivalent description of audit and review engagements in Part 4A.</p> <p><i>Professional Accountant vs Firm</i> In parts 4A and 4B of the restructured Code, the term “professional accountant” refers to professional accountants in public practice and their firms. The requirements in these Parts, however, are generally stated in terms of the firm. This is the case in each of the paragraphs identified. When this is the case, it is not clear whether the requirement is intended to apply to the professional accountant or only to the firm. As noted, the term ““professional accountant” refers to “professional accountants in public practice and their firms.” Use of the term “professional</p>

² Part 4A, *Independence for Audits and Reviews*, paragraph R400.12 of the Compilation of Proposed Restructured Code

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		<p>accountant” in this context makes it very clear that the requirement is on both the professional accountant and the firm. Accordingly, the NZAuASB recommends that the IESBA reconsider, for each of the requirements in Part 4B when the term “firm” is used, whether the intention is that the requirement applies only to the firm.</p> <p>The following comments identify paragraphs that place the requirement on the firm:</p> <ul style="list-style-type: none"> • <i>Paragraph R900.15</i> This paragraph requires the firm performing an assurance engagement to be independent. The extant Code requires the members of assurance teams and firms to be independent of the assurance client. As drafted, the requirement appears to apply only to the firm. • <i>Paragraph R900.40</i> requires the firm to document compliance with Part 4B. It is unclear how the firm would document compliance. • <i>Paragraph R910.11</i> requires the firm to apply the conceptual framework if an assurance team member knows about a financial interest. There appears to be a disconnect between the requirement on the firm, based on knowledge of an individual. • <i>Paragraph R921.2</i> refers to a family or personal relationship between the “firm” and client personnel.
31.	PWC*	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).
32.	RSM	We believe that the proposals in this Exposure Draft (“ED”) have not resulted in unintended changes in meaning of the sections listed above.
33.	SAICA	<ul style="list-style-type: none"> • The provisions for Part C of the Extant Code, as revised in the close-off document for Part C Phase 1 (see Sections 200-270 in Chapter 1)? • SAICA’s view is that text is clear and understandable and we did not notice any changes in meaning on reading the text. • The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)? • With reference to section 260.7 A2 there is no change in meaning, but SAICA would suggest a minor edit a deletion to improve the flow of the sentence as follows “...implications in terms of potentially substantial harm to investors,...); and

#	Respondent	Detailed Comment
		<ul style="list-style-type: none"> • Section 360.7 A2, again there is no change in meaning, but we suggest a minor edit a deletion to improve the flow of the sentence as follows “...implications in terms of potentially substantial harm to investors,...) • The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)? • SAICA has no further comments on the restructuring, in our view there are no unintended changes in meaning. • The provisions addressing restricted use reports in the extant Code (see Section 800 in Chapter 4)? • SAICA has no further comments on the restructuring, in our view there are no unintended changes in meaning. • The provisions relating to independence for other assurance engagements (Part 4B in Chapter 5)? <p>There is some inconsistent use of terms in the structure of the code, for example 900.7 ends “<u>refer to</u> Assurance framework...” and 900.8 ends “...<u>see the</u> Assurance framework.”. The task force may want to address these inconsistencies</p>
34.	UKFRC	<p>We are not concerned that the restructuring of the Code has introduced unintended changes of meaning, but rather that IESBA is not finalising the Code in a way that addresses significant concerns we, and others, have previously expressed in relation to some of these areas. As a consequence, in our view, IESBA will not achieve its aim to enhance understandability and usability of the Code to facilitate its effective implementation, consistent application and enforcement. General concerns relating to structure and language are described above. We set out more specific concerns in relation to Part C, NOCLAR and long association in our responses to the IESBA EDs on those and are disappointed to find that many have not been satisfactorily addressed. We reiterate below some of those concerns that we believe are fundamental to the understandability and usability of the Code.</p> <p>Part C</p> <p><i>Section 220 - Preparing and presenting information</i></p> <p>In our separate response to the Safeguards Phase 2 ED, we noted that we strongly believe that a principles-based approach, which clearly establishes overarching ethical principles and supporting ethical provisions, supplemented by clearly linked requirements addressing particular circumstances, will result in better ethical and behavioural outcomes. Consistent with this, we recommend that there should be an overarching principle for the preparation and presentation of information along the lines of:</p> <p>“In performing any professional activity that is involved with the preparation or presentation of the employing</p>

#	Respondent	Detailed Comment
		<p>organisation’s information, the professional accountant shall do so in accordance with the fundamental principles. The objective is to ensure that the information, insofar as the professional accountant is able to influence it, is fair, balanced and understandable and can be trusted by the intended users given the intended purpose and context of its use.”</p> <p>The fundamental principle of professional competence and due care should apply in all regards and, therefore, for example, <u>unintentionally</u> preparing and presenting information that is misleading (including information that is inappropriately influential) should be as much of a concern as should preparing and presenting information that is not in accordance with a relevant reporting framework whether intentionally or unintentionally. In the second bullet point of paragraph 220.7.A1 it should be clearer that, to comply with the fundamental principle of competence and due care, a professional accountant should prepare and present information that is not misleading (i.e. it is more than just not intending to mislead).</p> <p>Further, the specific reference to ‘nor to influence contractual or regulatory outcomes inappropriately’ may appear to unnecessarily restrict the meaning of ‘mislead’, which we believe should encompass intent to inappropriately influence outcomes. We recommend indicating that complying with the fundamental principles includes “preparing or presenting information that neither misleads nor is intended to mislead (including by inappropriately influencing regulatory, contractual or other outcomes based on the information)”. Similarly the third bullet point should be amended to “Not omitting information with the intention <u>or effect</u> of rendering the information misleading”.</p> <p><i>Information that does not have to comply with a relevant reporting framework</i></p> <p>The requirement in paragraph R220.9 and supporting guidance in paragraphs 220.9.A1 and A2 is very limited and is not clearly presented as relating specifically to circumstances where there is not a relevant reporting framework. We believe the factors identified here are of more general application and suggest that they should support the overarching principle recommended above. The guidance should clarify that the overarching principle also applies where there is no relevant reporting framework. It should be clear that the professional accountant ensures sufficient relevant information is given to enable the intended users to have a reasonable understanding of the information that is relevant to their needs, in particular in relation to matters of judgment and estimation and the assumptions underpinning them. The nature and extent of such information may depend on a number of factors, including: the context in which the information is presented; its purpose; the intended users; and whether and to what extent there is an applicable financial reporting framework and/or other criteria affecting the information.</p> <p><i>Reliance on the work of others</i></p> <p>We believe that referring to a professional accountant relying on the work of others suggests an active choice by the</p>

#	Respondent	Detailed Comment
		<p>professional accountant. It would be more appropriate to refer to circumstances where the outcome of the professional accountant's work is dependent on the involvement of others in the preparation or presentation of the information.</p> <p>IESBA has amended the requirement that is now presented in paragraph R220.10 so that the professional accountant exercises "<u>professional judgment</u> to determine what steps to take, if any, in order to fulfil the responsibilities set out in paragraph 220.7.A1" rather than being required to take "<u>reasonable steps</u>" to be satisfied that such work [being relied on] enables the professional accountant to fulfil those responsibilities. This was in part to avoid giving detailed guidance as what might be "reasonable steps". However, the supporting guidance in paragraph 220.10.A1 refers to "Factors to consider in determining whether reliance is <u>reasonable</u> include". To better align with the updated wording in the requirement this could be changed to "Factors to consider in exercising this judgment include".</p> <p>The factors actually given in paragraph 220.10.A1 are limited, very high level and unlikely to give much practical help. While we agree IESBA should not attempt to give detailed guidance that covers a wide range of circumstances, we believe it could give some more practical guidance. For example it could indicate that:</p> <p style="padding-left: 40px;">In large organisations/groups, the outcome of the professional accountant's work may in practice depend on the work of others, or on the effective operation of internal controls over that work that are the responsibility of others, who may be far removed from them in the chain of involvement in the preparation or presentation of the information. For example, others with significant involvement could be based in a service centre in another part of the world.</p> <p style="padding-left: 40px;">In these circumstances, a professional accountant who is relatively junior in the employing organisation, may consider factors including whether there are internal manuals that can be consulted and making appropriate inquiries to enable them to consider whether the work of those close to them in the chain of involvement (in preparation or presentation) is significant to the outcome and has been performed in a manner consistent with the principles in this section (and whether they are aware of any evidence that it has not been).</p> <p style="padding-left: 40px;">For a more senior professional accountant, factors to consider may include the work of others more distant in the chain of involvement, and obtaining an understanding of the outcomes of tests by others, of controls over that work (e.g. by internal auditors). However, the professional accountant should not be expected to always undertake such tests themselves.</p> <p>This is an example of an area where different guidance can be helpful depending on the seniority of the professional accountant. In the 'Basis for Conclusions' IESBA noted that it considered that "there are logical grounds for such differentiation in the NOCLAR proposals in that an act of NOCLAR is a matter that could have significant public interest</p>

#	Respondent	Detailed Comment
		<p>implications. This therefore gives rise to expectations of an appropriate response, the nature and extent of which will depend particularly on the seniority of the PAIB. IESBA determined that such a distinction would not be suitable for guidance in other areas addressed by the extant Part C.” To suggest that for areas other than NOCLAR such a distinction would “not be suitable” seems odd. The rationale is more clearly explained as IESBA goes on to note that “Given the variety of situations in which PAIBs are employed, including the variety of organizational structures that exist, IESBA agreed that clearly separating responsibilities according to seniority in those two sections <u>would not be practicable</u>. IESBA also reviewed all the examples provided and determined that the guidance in the two sections would be useful to PAIBs at any level in an employing organization.” However, as our comments illustrate, there can be areas where guidance which distinguishes between senior and junior accountants could be helpful, particularly having regard to the possible differences in levels of authority and ability to take particular actions.</p> <p><i>Disassociation with misleading information</i></p> <p>Paragraph R220.13 requires that “If after exhausting all feasible options, the professional accountant determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the accountant <u>shall refuse to be</u> or to remain associated with the information.” If it has not been possible to get misleading information corrected the professional accountant should seek to be disassociated from that information. However, association is a matter of both fact and perception. It may not, therefore, be possible for a professional accountant <u>to refuse</u> to be or to remain associated with the information. Association with the information might remain even if the accountant were to resign from the organisation, which is suggested as a possible action in paragraph 220.13.A2. If the professional accountant considers resigning, regard is given to seriousness of the matter and whether the public interest benefits of resigning would reasonably be expected to outweigh any adverse consequences of doing so.</p> <p>The last part of paragraph 220.11.A1 cross refers to Section 260 for a situation where misleading information might involve non-compliance with laws and regulations. The guidance should more explicitly address considerations as to whether the professional accountant has reason to believe the information is <u>intentionally</u> misleading.</p> <p><i>Section 270 - Pressure to breach the fundamental principles</i></p> <p>We believe that the list of illustrative examples of pressure in paragraph 270.4.A2 is unnecessarily detailed and risks supporting a rules based, rather than principles based mind-set. Some of the potential pressures identified relate to matters that in many jurisdictions would constitute fraud or other illegal acts – it is not helpful to mix ethical considerations with legal considerations. We would expect a professional accountant to be aware when they are under inappropriate or undue</p>

#	Respondent	Detailed Comment
		<p>pressure, and that in no circumstances should they knowingly breach relevant laws and regulations. The guidance in this section should be focussed on the considerations when the professional accountant is being subjected to such pressure.</p> <p><i>NOCLAR</i></p> <p>There remains considerable variation in the requirements and guidance for different categories of professional accountant. We agree that the approaches need to take into account the differing roles, levels of seniority and spheres of influence of professional accountants. However, the differentiations should be based primarily on the expected level of understanding of laws and regulations that may be relevant to the scope of their responsibilities and their ability to investigate further and take action - this is not always clearly the case. For all professional accountants there should be clear up-front overarching ethical principles:</p> <ul style="list-style-type: none"> • Not to be associated with a client or employing organisation that knowingly does not comply with applicable laws and regulations and lacks integrity, unless disassociation is prevented by law or regulation. • To be satisfied that, where possible and appropriate, disclosure of actual or suspected non-compliance is made to an appropriate authority that is able to take action. <p>Establishing such principles would help focus on achieving appropriate ethical outcomes in the public interest, and not just compliance with particular requirements. We note that in the 'Basis for Conclusions', IESBA specifically refers to this recommendation (which we gave in our response to the NOCLAR ED) and states that "The Board did not accept these suggested objectives as they are much narrower in focus [than the objectives that had been proposed in the ED]. Further the focus on disassociation and the possibility of disclosure to an appropriate authority was already covered in the ED". We did not suggest that these be the sole objectives of professional accountants, so their dismissal on the grounds of narrow focus is not appropriate; and while disassociation and the possibility of disclosure to an appropriate authority are covered it is not in a way that clearly establishes an objective to achieve the ethical outcomes as we have expressed them. As currently structured, there are in fact no clear 'objectives' that reflect the appropriate ethical outcomes specific to the different Section subject matters, just the repeated requirement to comply with the fundamental principles and apply the conceptual framework. As we discuss above, this approach fails to clarify the ethical <u>outcomes</u> that are necessary to act in accordance with the fundamental principles.</p> <p><i>Reporting to an appropriate authority</i></p> <p>Significant variation exists in relation to reporting actual or suspected NOCLAR to an appropriate authority. We believe that</p>

#	Respondent	Detailed Comment
		<p>there should be a requirement for all professional accountants who identify actual or suspected non-compliance with laws and regulations [in the course of their work], to determine whether they have a responsibility to report the matter to an appropriate authority. This would reflect a general ethical responsibility to act in the public interest and assist in preventing professional accountants from themselves committing an offence by failing to make a report when there is a legal or regulatory requirement to do so. For example, under the UK Proceeds of Crime Act 2002 there are reporting requirements in relation to known or suspected money laundering that are applicable to all persons working in a ‘regulated sector’, and failure to make such a report when appropriate is itself an offence.</p> <p>Of particular concern is the requirement in paragraph R260.26 for professional accountants in business who are not ‘senior professional accountants’. This suggests that a requirement to report will arise only “in exceptional circumstances”, as the rest of this subsection is based on the premise that the normal method of addressing a concern is to report to a more senior person within the entity. This risks leading such professional accountants to fail to understand legal or regulatory requirements that may apply, and end up in breach of them. This is avoided if, as we recommend, all professional accountants are required to determine whether they have a duty to report - if they do not, then it may be appropriate to see the matter escalated up the chain of authority rather than making a report themselves.</p> <p>When determining action to be taken, paragraph R360.21 requires “... the accountant shall take into account whether a reasonable and informed third party would be likely to conclude that the accountant has acted appropriately in the public interest.” However, we remain concerned that some guidance may discourage making a report in the public interest when it would be appropriate do so. For example, in the later subsection that addresses “determining whether to disclose the matter to an appropriate authority”, paragraph 360.25.A3 still states that “the determination of whether to make such a disclosure will also depend on external factors such as:whether there exists <u>robust</u> and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.” We believe this may lead a professional accountant not to make disclosure in circumstances where it would be appropriate to do so. In many jurisdictions there may not be explicit “robust” legal or regulatory protection, but it may be generally established that a professional accountant would not be held in breach of a duty of confidentiality if he/she could demonstrate that they acted reasonably and in good faith. We recommend that this point is amended to indicate that if the professional accountant is concerned about whether he/she would be open to action in the courts as a result of making a disclosure, they should obtain legal advice.</p>

	<p><i>Scope of laws and regulations</i></p> <p>In our response to the NOCLAR ED we identified that the scope of these sections is too narrowly restricted to laws and regulations that either have a direct effect on financial statements, or with which compliance may be fundamental to the operating aspects of the business. It specifically excludes personal misconduct unrelated to the business activities of the client and non-compliance by persons other than the client, those charged with governance, management or employees of the client. In the ‘Basis for Conclusions’ it is stated that “The Board noted that placing no limitation on the scope of laws and regulations covered would lead to an undue burden being placed on PAs, over and above what it would be reasonable to expect them to respond to by virtue of their professional training and expertise. The Board reaffirmed its view that it should be a personal responsibility for PAs to determine whether and how they should respond to NOCLAR outside the scope of laws and regulations covered by the sections.”</p> <p>We are very concerned that IESBA does not address this with sufficient regard to the public interest. From an <u>ethical</u> perspective, all professional accountants should be required to respond appropriately when they identify matters that they <u>know or suspect</u> to be non-compliance with any laws and regulations, not just laws and regulations related to the preparation of financial statements or fundamental to the operating aspects of the business. We believe that this would be the expectation of ‘the public’ and essential to compliance with the fundamental principles of integrity and professional behaviour. There is no requirement, or suggestion, that professional accountants should necessarily have knowledge of law and regulations beyond that gained by virtue of their professional training or expertise, so it is wrong to claim that “placing no limitation on the scope of laws and regulations covered would lead to an undue burden”. Some professional accountants will have an understanding of law and regulations outside that of IESBA’s current proposed scope and failing to respond appropriately to a known or suspected breach of those laws or regulations cannot be excused from an ethical perspective and would fail to serve the public interest.</p> <p><i>Determining whether further action is needed</i></p> <p>Although there are requirements to “determine if further action is needed in the public interest”, we remain concerned that the supporting guidance fails to give sufficient consideration of what action would be appropriate in the public interest and that the determination should be made on the basis of what an objective, reasonable and informed third party would be likely to conclude given the information known at the time. For example, the threshold in paragraphs 260.17.A2 and 360.20.A1 of “credible evidence of actual or potential <u>substantial harm</u>” is open to widely differing interpretation and may not meet the third party test as to what is in the ‘public interest’. This will not help enhance understandability and usability of the Code, nor facilitate its consistent application and enforcement.</p>
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		<p><i>Reporting a matter to a network firm</i></p> <p>IESBA has maintained its proposal that a professional accountant performing a non-audit service for an audit client of a network firm “<u>consider whether</u> to communicate the matter to the network firm” rather than requiring communication as is the case where the service is being performed for an audit client of the same firm. In the Basis for Conclusions IESBA repeats that it believes this is necessary as the position with respect to communication to a network firm may be “more complex and nuanced”. We believe that this is not giving sufficient regard to what is in the public interest. The guidance in paragraph 360.34.A1, which lists factors relevant to considering whether to communicate, includes “The likely materiality of the matter to the audit of the client’s financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.” Considering materiality to the financial statements may lead to an inappropriate conclusion as to what is in the public interest. Unless prevented by law or regulation or contractual obligations there should be a requirement to communicate.</p> <p><i>Long association</i></p> <p>We are pleased that there is no longer a difference in requirements between listed and non-listed PIEs.</p> <p>We note that the jurisdictional safeguards (that would have allowed for a reduction in the cooling off period) have been simplified but we are concerned that IESBA still allows for a transitional period (to 15 December 2023) where a national regulator can override the Code and establish a shorter cooling-off period for engagement partners. As we explained in our response to the limited re-exposure ED, if IESBA has determined what it believes is the appropriate cooling-off period required (we support five years) it should not compromise its position – this undermines the Code. A reduction in the cooling-off period can only be acceptable where there is a legal or regulatory requirement mandating such. However, we agree that to introduce such a change with effect for audits of periods beginning on or after 15 December 2018 could be problematic. The proposed effective date for the other parts of the restructured Code for audits of financial statements for periods beginning on or after 15 June 2019 should, however, provide sufficient time for auditors and their clients to prepare for the new requirements.</p> <p>We are disappointed that, while the requirements for establishing the cooling-off period for a partner who has served in a combination of roles have been simplified, IESBA has rejected our recommendation that a partner who has served the maximum permitted time-on period, including as the engagement partner, EQCR or combination of those roles should be required to cool-off for the full five year period. IESBA’s rationale is that our recommendation “would fail to recognise situations such as where the individual acted as the substitute EP or EQCR for just one year while the incumbent EP or</p>

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		<p>EQCR took, for example, maternity leave, resulting in a disproportionate outcome.” However, if a partner took a full year out (i.e. did not serve as EP or EQCR at all in relation to one full engagement period) we would not include that year in determining the time-on period. For a partner undertaking a combination of roles the familiarity threat is increased with an increasing period of time, whatever the role.</p> <p><i>Restricted use reports</i></p> <p>Sections 800 (for audits and reviews) and 999 (for other assurance engagements) set out conditional modifications, including exceptions, from particular independence requirements. These are permitted in certain circumstances for engagements where the report includes a restriction on its use and distribution. We believe such modifications are appropriate where all parties are knowledgeable of the circumstances and there may, for example, be less perception risk. However, we suggest that there could be explicit emphasis in the introduction to these sections of the need to comply with the fundamental principles of integrity and objectivity.</p> <p><i>Independence for other assurance engagements</i></p> <p>As we acknowledge above, a case may be made for less stringent requirements applying to private reporting engagements, where all parties are knowledgeable of the circumstances and there may, for example, be less perception risk. However, we consider the independence considerations for public interest assurance engagements are the same as those for audit engagements. When we revised our Ethical Standard we developed it to apply to audit and other “public interest assurance engagements” and we recommend IESBA takes the same approach. This would eliminate unjustifiable inconsistencies and also enable the Code to be shortened.</p>
35.	WPK	<p>We are not aware of material unintended changes in meaning in relation to the named Sections of the Code. Nevertheless we would like to address the following content-related issues:</p> <p><i>Applicability of Part C to professional accountants in public practice</i></p> <p>As already mentioned in our comment letter to the ED <i>Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice</i> we fear that a mere reference to Part C in R120.4 / R300.5 might impair the clarity and manageability of the Code.</p> <p>Although the ED stipulates examples for applying Part C provisions to PAIPP, the precise range of situations for which PAIPP shall apply Part C remains unclear. This lack of precision would inevitably bring about legal uncertainties for the</p>

#	Respondent	Detailed Comment
		<p>profession. Thus, the “applicability” to professional accountants in public practice should not be to the entire section but limited to the areas conflicts of interest, pressure and inducements.</p> <p><i>Legal Prohibitions</i></p> <p>260.20 A1 refers to the existence of legal prohibitions in some jurisdictions that preclude reporting of NOCLAR to external parties. We believe that this significant specification should obtain more prominence within the Code.</p> <p><i>Inconsequential Matters</i></p> <p>260.7 A3 and 360.7 A3 include references to clearly inconsequential matters. We think that these clarifications should not be limited to NOCLAR only, but be extended to all circumstances giving rise to potential threats covered by the Code, since a clearly inconsequential matter can per se not be deemed to threaten compliance with a fundamental principle anywhere in the Code.</p>

Question 2

Structure of the Code Phase 2

2. Do you believe that the proposals are consistent with the key elements of the restructuring as described in Section III of this Explanatory Memorandum?

#	Respondent	Detailed Comment
1.	AAA	We ... agree that the proposals are consistent with the elements of restructuring as described in Section III of the Explanatory Memorandum, ...
2.	AAT	AAT has not identified any likely unintended changes of meaning.
3.	ACCA	<p><i>Increased prominence of the fundamental principles and conceptual framework:</i></p> <p>Care should be taken to ensure that the restructured Code is not (and is not perceived as) moving away from a principles-based code. Compliance with a Code that is a set of rules has little value if, in some situations, compliance with those rules does not bring about compliance with fundamental ethical principles. Therefore, in completing this project to restructure the Code, it is important that the IESBA focuses on making compliance with the conceptual framework as easy as possible.</p> <p><i>Requirements distinguished from other material:</i></p> <p>Like many other respondents, we would prefer requirements to be emboldened and all prefixes and suffixes to be removed. The numbering system is so complicated that it is difficult to have discussions about how the different paragraphs of the Code interact. Therefore, engagement with the Code is more difficult.</p> <p><i>Increased clarity of responsibility:</i></p> <p>In general, we support the objective of identifying the responsible party in certain situations. However, with regard to the requirements that relate to compliance with the conceptual framework, it is important that professional accountants identify their own responsibility and feel accountable for their compliance with the Code. Therefore, the fundamental principles and conceptual framework must be absolutely clear, and seen as paramount.</p> <p><i>Increased clarity in drafting:</i></p> <p>Increased clarity of drafting is extremely important in achieving the overriding objectives of this project. However, given the requirement that the project is not to change the meaning of the Code, it is impossible to achieve the simplifications required within the parameters of the Restructure project. A future project should be undertaken to review specific provisions within the restructured Code, and this should be scoped out within the IESBA's strategy beyond 2018. It might include a review of</p>

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		<p>the numbering conventions in sections 4A and 4B, as they appear inconsistent. It should, in time, be evident from each IIS's contents page that there is consistency in structure. This will assist the user in identifying more quickly the relevant sections in each IIS.</p> <p>In accordance with the outcomes of the NOCLAR project, the definition of 'professional behaviour' in the restructured Code includes the avoidance of discreditable <i>conduct</i>, as opposed to <i>action</i>. This takes account of conduct that amounts to <i>inaction</i> in a situation in which appropriate action is called for. We believe there is more work to be done in searching through the Code to identify all other situations in which the word 'act' or 'action' could be seen as too limited (for example in paragraph 260.2).</p> <p>There are other examples of inconsistency throughout the draft restructured Code, and we have already alluded to the benefit of seeking greater consistency in the structure and wording of the introductory paragraphs of each section. However, this Phase 2 exposure draft illustrates a further inconsistency between sections 200 and 300. latter includes sections on 'identifying threats', 'evaluating threats' and 'addressing threats'; in contrast, section 200 does not include any paragraphs on addressing threats.</p> <p>There is some inconsistency in phrasing throughout the Code, which we believe should fall within the scope of the current restructure project. However, as an alternative, it may be more appropriate to defer such an exercise to a later date. For example, there are several references to a review by a professional accountant, and a consistent way of expressing the rationale for the review and the required independence of the reviewer would be beneficial.</p> <p>Clarity of drafting could also be improved by reviewing the draft restructured Code for imprecise words such as 'generally'. If something is said to be 'generally necessary' (210.8A1), it would appear that it is a requirement in some circumstances. Also, the meaning of words such as 'consider' could be difficult to interpret and translate. Where the text states 'factors to consider ... include' (220.10A1, 260.16A1, 360.11A2, etc), this is failing to meet the stated objectives of avoiding use of the present tense in application material, and increased use of the active voice. We recommend that the IESBA should look for more opportunities to use a phrase such as 'the professional accountant might consider' in these areas.</p> <p>Paragraph R923.5 uses the wording of extant paragraph 291.135 in requiring management to make 'all relevant decisions'. Greater clarity (and accuracy) would arise from expressing this requirement as a need for the professional accountant to avoid making decisions that are the proper responsibility of management.</p>

#	Respondent	Detailed Comment
4.	AE	<p>Firstly, we welcome that the majority of our comments regarding Phase 1 have been accommodated in the Basis for Agreement in Principle, especially the creation of independent sections for the independence standards.</p> <p>Nevertheless, we find that this restructuring may be seen as a shift towards a more rules-based Code. As mentioned in our comments to Phase 1, the main concern of the Code should remain to address the mind-set and behavior of the professional accountant instead of promoting mere compliance with a set of provisions. Compliance with each of the requirements does not necessarily mean compliance with the fundamental principles and conceptual framework, and this aspect should be emphasized in this restructuring exercise.</p> <p>We also regret that IESBA has not taken into consideration our comment regarding the fundamental principle of professional behavior. In Phase 1 there was an inconsistency between subparagraph e) of 100.5 that stated “to <i>comply with relevant laws and regulations and avoid any action that discredits the profession</i>” and 150.1 which stated formerly “to <i>comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know may discredit the profession</i>”. In the compilation of proposed restructured Code – 110.1 (e), IESBA took this last definition making the principle more stringent.</p> <p>Additionally, IESBA has replaced “action” for “conduct” in the definition of professional behavior, making a cross-reference to the NOCLAR provisions. Nevertheless, both proposed sections 260 and 360 also refer “act or suspected act” (260.2) or “acts of omission or commission” (260.4 A1). Therefore, we urge IESBA to be consistent in the wording across the proposed restructured Code and to avoid amendments that do not represent added value, potentially leading to unintended changes.</p> <p>As in Phase 1, we question the move of R100.4, which corresponds to 100.10 of the extant Code, to section 100. It should be included in section 110 as it is a requirement for professional accountants. In addition, we reiterate that this is a good opportunity to introduce a reference to actions to stop the breach, as is the case in R400.80 (a) and R900.50 (a). Currently, in the remit of the conceptual framework approach, the professional accountant is required to address the consequences of the breach and determine whether to report the breach, but no specific action must be taken to stop the activity that causes the breach.</p>
5.	AICPA	<p>Yes, overall, we believe that the proposals are consistent with the key elements of the restructuring as described in Section III of this Explanatory Memorandum. However, we note the following for the Board’s consideration.</p> <p>In certain paragraphs designated as application material, the professional accountant “is required” to take a specific action. Specifically, par. 220.7 A1 states “the professional accountant is required to comply with the fundamental principles when preparing or presenting information which includes:” and par. 230.4 A3 states “...a professional accountant is required to evaluate the nature of the financial interest.” We question whether such application material should be written instead as</p>

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		<p>requirements (e.g., “a professional accountant shall...”) to conform to the drafting conventions used by the Board in distinguishing requirements from application material.</p> <p>With the exception of the introduction to Section 270 (Pressure to Breach the Principles), Sections 200 – 270 all begin with the following introduction: “Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.” The introduction to Section 270, however, specifically refers to “...and address threats <i>created by pressure</i>.” We recommend that the Board delete the words “created by pressure” to be consistent with the rest of the Code.</p>
6.	APESB	<p>Overall APESB believes that the proposals are consistent with the key elements of the restructuring described in the Explanatory Memorandum of the Structure 2 ED subject to our comments below.</p> <p><u>Inappropriate use of ‘might’ and ‘may’</u></p> <p>APESB notes the application of the IESBA’s drafting guidelines on the use of ‘may’ or ‘might’ throughout Structure 2 ED. However, we have identified some instances where the use of the term ‘might’ may be inappropriate as noted below:</p> <ul style="list-style-type: none"> • inappropriately used in paragraph R115.1 (second sentence) when it specified that a professional accountant shall not engage in business, occupation or activities that impairs or ‘<i>might impair</i>’ integrity, objectivity or good reputation. We believe that in its place, it is more appropriate to state “...<i>that impairs or is perceived to impair</i>’. • unnecessarily added in the first sentence in paragraph 200.2, i.e. ‘<i>Investors, creditors, employers...rely on the work of professional accountants in business</i>’. It is a factual statement and does not need the term ‘might’. <p>We propose that the IESBA perform a critical review of the Structure 2 ED of where the term ‘might’ is used to assess whether any other extant provisions have been inadvertently diluted or changed.</p> <p><u>Complex numbering system</u></p> <p>APESB believes that the alpha-numerical referencing proposed by the IESBA is complex and cumbersome. The long numbering system might cause difficulties when professional accountants need to cross-reference their policies and procedures with the requirements of the Code.</p> <p>We also found at times that the rationale behind the numbering of application material paragraphs is not clear. For instance:</p> <ul style="list-style-type: none"> • Paragraphs 220.4 A1 – 220.7 A1 in Section 220 <i>Preparation and Presentation of Information</i> did not have any specific requirements. Moreover, the changes in paragraph numbers are confusing, i.e. 220.4 A1 was followed by 220.5 A2,

#	Respondent	Detailed Comment
		<p>220.6 A1 and 220.7 A1. If these paragraphs were related to a specific requirement, then the numbering would have been 220.4 A1, 220.4 A2 and so on.</p> <ul style="list-style-type: none"> Similarly, NOCLAR application material paragraphs 260.4 A1 – 260.4 A2 were not clearly related to specific requirements. <p>We propose that the IESBA consider adopting a shorter and simpler sequential numerical system that will:</p> <ul style="list-style-type: none"> define requirements and application material based on the existing approach applied by standards setters such as IAASB, IFRS and APESB; and clearly establish relationships between requirements and application material. <p><u>Relocating the Glossary to be after the Guide</u></p> <p>APESB recommends that the Glossary is relocated to be positioned after the Guide to the Code. This would be consistent with the practice used by most standard setters and legislators to provide definitions at the beginning of a document rather than at the end.</p>
7.	BDO*	<p>We do believe that the proposals are consistent with the key elements of the restructuring.</p> <p>In addition to the specific request for comments, we have noted the following minor wording suggestions:</p> <p>Section 260:</p> <p>R260.5 currently states, ‘The professional accountant shall apply this section regardless of the nature of the employing organization, including whether or not it is a public interest entity.’</p> <p>We would suggest it be simplified to, ‘The professional accountant shall apply this section for all employing organizations, including public interest entities.’</p> <p>260.6 A1 states, ‘A prohibition on alerting the client prior to....’</p> <p>This was revised to ‘A prohibition on alerting the party prior to..’ in the Compilation of Proposed Restructured Code document.</p> <p>We believe that this should be specific and would recommend ‘A prohibition on alerting management of the employing organization prior to...’</p> <p>The titles for responsibilities of professional accountants have been revised to:</p>

#	Respondent	Detailed Comment
		<ul style="list-style-type: none"> • Responsibilities of Professional Accountants (in Business was deleted); • Responsibilities of Senior Professional Accountants in Business (in Business was not deleted); and • Responsibilities of Professional Accountants Other than Senior Professional Accountants in Business (in Business was not deleted). <p>We believe it would be clearer if it was consistent with including or excluding ‘in Business’ and given that this is within the Professional Accountants in Business section of the Code, we believe it can be removed in all titles. We also believe it would also be clearer to note that the first set of responsibilities are for all professional accountants in business.</p> <p>Section 360:</p> <p>R360.5 – similar comment as in 260.5 above.</p> <p>R360.5 currently states, ‘The professional accountant shall apply this section regardless of the nature of the client, including whether or not it is a public interest entity.’</p> <p>We would suggest it be simplified to, ‘The professional accountant shall apply this section for all clients, including public interest entities.’</p> <p>R360.22 - the last line states, ‘The predecessor accountant shall do so despite R320.11, unless prohibited by law or regulation.’</p> <p>Please note that the reference should be R320.10.</p> <p>In addition, we find this wording very confusing. Our understanding of this line is that if requested by the successor accountant and the client refuses to grant consent, we are required to disclose this information, unless prohibited by law or regulation. It would be clearer if this could be said in section 360. Please see our suggested edit.</p> <p>‘The predecessor accountant shall do so, unless prohibited by law or regulation, even if the client fails or refuses to grant permission to the predecessor accountant to discuss the client’s affairs with the proposed accountant (R320.10 (b)).’</p> <p>Section 540 – Long Association</p> <p>A question has been raised within our firm related to the allowance for one additional year in rare cases due to unforeseen circumstances outside the firm’s control. Depending on when this occurs in a year, a one year extension may not be sufficient to address the audit of the client for that fiscal year. In a future project we would ask that you consider a potential extension so that the audit that occurs in that period could be completed.</p>

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8.	CAANZ	<ul style="list-style-type: none"> • The proposed Code commences each section in Part 2 and 3 with the sentence “Professional accountants are required to comply with the fundamental principles and apply the conceptual framework to identify, evaluate and address threats”. We believe the overriding requirement is clear at R200.5, repeating the phrase at the commencement of each section contributes unnecessarily to the length of the Code. In Part 4A a similar repeated reference to a firm being independent and complying with the fundamental principles is also not required as it is adequately set out at R400.11 and R400.12. • To assist understandability of the Code it is important that where ever possible the Code uses the same wording for the same action or item. The following table provides some examples where similar, but not identical, terms are used. It would be helpful if these could be more standardised. <ul style="list-style-type: none"> ○ 900.32 A1 Having a professional accountant review the assurance and non-assurance work as appropriate ○ 905.5 A2 Having an additional professional accountant who was not an assurance team member review the work or otherwise advise as necessary ○ 905.6 A2 Have an additional professional accountant who did not take part in the assurance engagement review the work performed ○ 905.10 A2 Having a professional accountant review the assurance work or otherwise advise as necessary ○ 907.4 A2 is having a professional review the work performed. ○ 911.6 A2 having the work reviewed by a professional who is not a member of the assurance team that is neither involved with the assurance engagement... ○ 922.5 A3 conducting a review of the work performed by the individual as an assurance team member.
9.	CHI	<p>The proposals are consistent with the key elements of the restructuring.</p> <p>We particularly welcome the clearer distinction of requirements as “R” and application material as “A”. This will help with the understanding and application of the Code.</p>
10.	CPAC	<p>Generally, we believe that the proposals are consistent with the key elements of the restructuring as described in Section III</p>

#	Respondent	Detailed Comment
		<p>of the Explanatory Memorandum.</p> <p>However, as noted above, it was observed that greater clarity would be achieved through the use of “audit” and “review” separately identified and stated consistently within the Code, where applicable. In addition, clear and consistent use of “Other” as it relates to other assurance engagements was strongly preferred to avoid unnecessary confusion.</p> <p>It was noted that some inconsistency seemed to exist within the Exposure Draft regarding the use of “professional accountant” and “accountant” only, which could result in confusion. To ensure clarity and ease of use for the reader, we respectfully suggest that “professional accountant” should be used consistently throughout. We believe that any additional volume created is warranted for the sake of clear and easy understanding. Similarly, consistent description throughout the Code, whether by acronyms or words, would be desirable for Professional Accountants in Business and Professional Accountants in Public Practice.</p> <p>In responding to the 2016 Structure ED-1, we noted that each section could be strengthened if it began with reference to the applicable Fundamental Principle(s). We believe that this would further enhance the clarity for the user of the principles basis of the Code supported by the specific requirements. An example of this is contained in the Introduction to Section 260 and it is suggested that consistent introductions throughout the Code citing the relevant fundamental principles as in 260.2 would be very positive.</p> <p>It was also observed that consistent use of language would be desirable regarding the application of the conceptual framework and the threats and safeguards approach. R900.16 was identified as an effective description of such requirements.</p> <p>We observed that consistent use of key terms is important for the clarity, usability and enforceability of the Code. Consequently, as an example, we noted that the fundamental principles should be used consistently while avoiding the potential exchange for other words that may be similar but have a different meaning.</p> <p>With respect to format, we respectfully suggest that the consistency of the Code could be enhanced by making a deliberate choice between bulleted lists (where the list is not exhaustive) and lists denoted by alpha or numeric references (for lists where all intended items are included).</p> <p>We noted that the clarity of 800.7 and 800.8 may be enhanced if the ordering of the requirement to assess appeared before the potentially applicable exemptions.</p> <p>It was observed that greater clarity may be warranted in R360.22. The requirement relies on a “request by the proposed</p>

#	Respondent	Detailed Comment
		<p>successor accountant” and it is not clear whether the request would be for a standard “takeover” letter or more specifically for a form of NOCLAR disclosure and what that may entail. It was also noted that the requirement draws in some of the application material in 360.22 A1 in describing the requirement. It was felt that greater clarity within R360.22 would enhance the Professional Accountant’s understanding, ability to comply and also with respect to the enforceability of this requirement.</p>
11.	DTTL*	<p>The provisions for Part C of the Extant Code, as revised in the close-off document for Part C Phase 1 (see Sections 200-270 in Chapter 1)?</p> <p>The drafting in 210.2 is different to most other introductory sections because relevant Application material about how threats might be created has been included in the introduction paragraph rather than as application guidance. The words after “<i>Such threats might be created when...</i>” would seem to be more appropriately included in the General section of the Requirements and Application material.</p> <p>The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)?</p> <p>The provisions do not refer to “non-compliance” consistently. Some references are to “acts” of non-compliance, some to “instances” of non-compliance and sometimes just to non-compliance, which might imply they mean different things. We suggest referring consistently to non-compliance or suspected non-compliance for clarity, for example: <i>260.2 Threats to compliance with the principles of integrity and professional behavior are created when an accountant becomes aware of non-compliance an act or suspected act of non-compliance with laws and regulations.</i></p> <p>There is a difference between the wording of 260.3 and 360.3, and 260.5 A1 and 360.5 A1 regarding the application of this Section. We suggest 260.3 and 360.3 should read consistently with 260.5 A1 and 360.5 A1 “...regarding the approach to be taken by a professional accountant <u>who encounters or is made aware of</u> when responding to non-compliance or suspected non-compliance with...”</p> <p>There is a sub-title “<i>Addressing the Matter</i>” before sections R260.13 and R360.13. Considering the greater focus on the conceptual framework and “addressing threats” this subtitle could be confusing as to whether it is referring back specifically to the conceptual framework. We suggest renaming the sub-title “<i>Responding to the Matter</i>” which would remove any confusion with “addressing threats”. It would also be consistent with the wording used in other paragraphs in this section, for example, <i>R260.15 “In addition to responding to the matter in accordance with the provisions of this section...”</i> There are several other places in this Section where “respond” may be a better word to use than “address” to avoid confusion, for example, <i>360.16 A1 “.. and if so, how to <u>respond to</u> address it in accordance with the provisions of this section.</i></p>

#	Respondent	Detailed Comment
		<p>We consider that for clarity, the requirements in R260.21, R260.22, R360.27, R360.26 should include the clear reference that disclosure will not be a breach of confidentiality only when the decision to disclose is made in accordance with the provisions of the Section (as is included in R260.26). For example:</p> <p><i>R260.21: If the senior professional accountant determines, <u>pursuant to paragraphs 260.20 A2 and A3</u>, that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, this is not a breach of the duty of confidentiality under Subsection 114 of the Code.</i></p> <p>and</p> <p><i>R360.26: If the professional accountant determines, <u>pursuant to paragraphs 360.25 A2 and A3</u>, that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this is not a breach of the duty of confidentiality under Subsection 114 of the Code.</i></p> <p>There appears to be an inconsistency in the provisions with regard to considering whether to inform management or those charged with governance before making disclosures. R360.26 includes a requirement that the professional accountant shall also consider whether it is appropriate to inform the client of the accountant’s intentions before disclosing the matter, however there is no similar requirement in R260.22. However, both 260.22 A1 and 360.27 A1 also set out the professional accountant might consider whether to discuss prior to deciding whether to disclose the matter to an appropriate authority <i>immediately</i>. We recommend making the requirements/guidance consistent for clarity, while recognising it is also missing in the extant provisions.</p> <p>The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)?</p> <p>By splitting the requirements into bullet points in R540.5, the meaning of the first bullet point has been changed as it has lost the link to being “for the audit engagement”. The rotating individual is not permitted to be a member of the engagement team for the audit engagement (which, for the sake of clarity, is different to an engagement team member and different to an audit team member). R540.5 should read:</p> <p><i>If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:</i></p> <p><i>(a) Be an member of the engagement team <u>member for the audit engagement</u>; or</i></p> <p><i>(b) Provide quality control for the audit engagement; or...</i></p>

#	Respondent	Detailed Comment
		<p>For the same reasons, R940.5 (a) should read <i>“Be an member of the engagement team <u>member for the assurance engagement</u>”</i></p> <p>It would also be more accurate to separate R540.19 (a) into two separate points and make clear the reference is to a member of the engagement team for the audit engagement, as follows:</p> <p><i>R540.19 For the duration of the relevant cooling-off period, the individual shall not:</i></p> <p><i>(a) Be an engagement team member <u>for the audit engagement</u>;</i></p> <p><i>(b) or Provide quality control for the audit engagement;</i></p> <p><i>(b) (c) Consult with the engagement team or the client regarding technical or industry-specific....</i></p> <p>Sections R540.7-9 which are set out as exceptions to R540.6 are confusing as Requirements as they do not contain “shall” wording and therefore do not follow the drafting conventions. As the Requirement in R540.6 already states it is subject to R540.7 to R540.9, we would question whether the “exceptions” in fact need to be set out in Requirement paragraphs.</p> <p>The provisions addressing restricted use reports in the extant Code (see Section 800 in Chapter 4)?</p> <p>The last paragraph in R800.3 and R999.3 does not seem to form part of the conditions for an engagement to be an “eligible engagement” in the extant Code, rather an additional requirement/clarification regarding the requirement to communicate to intended users. It would seem better placed as a new Requirement paragraph located before 800.3 A2 and 999.3 A2 respectively, which would also more closely link the Requirement with the Application guidance which is currently disjointed and hard to follow. For example:</p> <p><i>New R800.4/R999.4 Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.</i></p> <p><i>New 800.4. A1/999.4 A1 For example, where the intended users <u>are a class of users such as</u> lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders...</i></p> <p>The provisions relating to independence for other assurance engagements (Part 4B in Chapter 5)?</p> <p>Some helpful guidance from the extant Code is missing from the restructured Part 4B:</p>

#	Respondent	Detailed Comment
		<ul style="list-style-type: none"> • The extant Code is clear that if an assurance client is also an audit client that Part 4A applies. While 900.14 cross references to Part 4A, it does not explicitly make the point that you cannot apply Part 4B to an engagement with an audit client just because you are performing an assurance engagement. • Extant 291.101 explains that in the majority of assurance engagements there is one responsible party and that responsible party is the assurance client. <p>Independence requirements are different with respect to audit and other assurance clients and therefore we would suggest that it is important for R900.15 to state <i>“A firm performing an assurance engagement shall be independent <u>of the assurance client in accordance with Part B</u>”</i>. Likewise suggest 900.5 state <i>“When performing assurance engagements, the Code requires firms to comply with the fundamental principles and be independent <u>of the assurance client in accordance with Part B</u>”</i>.</p> <p>The requirement in R905.7 has been changed slightly and no longer recognises that fees may remain unpaid after the issuance of the assurance report, and that is when the matters in R905.7 (a) and (b) are to be determined: <i>R905.7 When a significant part of fees due from an assurance client remains unpaid for a long time, If fees remain unpaid after the assurance report has been issued the firm shall determine:</i></p> <p>It is unclear how a firm would have the ability to meet the requirement in R910.11 to apply the conceptual framework set out in Section 120 to two situations where the assurance team member is the individual with the knowledge of the financial interests. The extant Code does not place a requirement on the firm.</p> <p>A new requirement has been created in R911.7 that prohibits accounts with banks or brokers unless held on normal commercial terms. Extant 291.117 states that a deposit or brokerage account on normal terms does not create any threat to independence. It does not prohibit one from having an account that is not on normal terms, in which case, presumably one would evaluate the threats created by such a circumstance (note the construct “does not usually create a threat to independence” is still used elsewhere for example 920.6 A1).</p>

		Appendix 1: Drafting suggestions to add clarity Restructured Code Paragraph
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#	Respondent	Detailed Comment
		<p>Various provisions repeated in the Introductions</p> <p>There should not be different paragraphs in the Code that use the same words but apply to different situations, as this causes confusion as to where and how a provision applies.</p> <p>Using the example of the “gifts and hospitality” provisions; 340.3, 420.3 and 906.3 in the ED use exactly the same words. We suggest that each provision which is repeated in the various introductions include reference to the type of client it applies to in order to differentiate the provisions if they are taken in isolation. For example:</p> <p>340.2 An offer of <u>Accepting</u> gifts or hospitality from a client might create self-interest, familiarity or intimidation threats.</p> <p>340.3 Section 340 sets out specific application material relevant to applying the conceptual framework to offers of gifts and hospitality <u>from a client</u>.</p> <p>420.2 Accepting gifts or hospitality from an audit client might create self-interest, familiarity or other <u>intimidation</u> threats.</p> <p>420.3 Section 420 sets out a specific requirement relevant to applying the conceptual framework to offers of gifts and hospitality <u>from an audit client</u>.</p> <p>906.2 Accepting gifts or hospitality from an assurance client might create self-interest, familiarity or other <u>intimidation</u> threats.</p> <p>906.3 Section 906 sets out a specific requirement relevant to applying the conceptual framework to offers of gifts and hospitality <u>from an assurance client</u>.</p> <p>R200.9</p> <p>The separation of the R and A paragraphs in this case have led to a confusing provision where the R paragraph is not entirely understandable on its own. Suggest adding the following:</p> <p>R200.9 If a professional accountant communicates with individuals who have management responsibilities, <u>and those individuals also have governance responsibilities</u>, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.</p>

#	Respondent	Detailed Comment
		<p>210.10 A1 “Being subject to Preparing or presenting financial information as a result of undue pressure from others within the employing organization when preparing or presenting financial information;”</p> <p>220.2 Inconsistent with extant wording and other wording in the section for example 220.4 A1. Suggest “when an accountant is responsible for <u>involved</u> in preparing or presenting information”.</p> <p>220.4 A1 Professional accountants at all levels in an employing organization are <u>might be</u> involved in the preparation and presentation of information both within and outside the organization.</p> <p>Consistency of wording in “Other Considerations” paragraphs In some sections, under “Other Considerations”, there are references to other Sections that may be referred to by the user. It is unclear whether the difference in wording is intended to mean different requirements, for example: 220.14 A2: the material in Section 270 is “relevant” 230.5 A:1 the material in Section 270 “applies”</p> <p>270.3 Section 270 sets out specific requirements and application material relevant to applying the conceptual framework when addressing pressure <u>to breach the fundamental principles.</u></p> <p>Last line of 270.4 A4 The principle of confidentiality applies in communications with <u>both internal and</u> external parties.</p> <p>260.6 A1 The reference to “client” should be “relevant party” as this refers to a public accountant in business.</p> <p>260.7 A3 Without a qualifier, this paragraph seems to suggest a broader exception than intended.</p> <p>360.7 A3 Suggest:</p>

#	Respondent	Detailed Comment
		A professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section <u>with respect to such matters</u> .
	260.7 A4 360.7 A4	This guidance relates to an exclusion to the “scope” of the provisions which would be more helpful to be included earlier, for example before R260.5/R360.5
	260.9 A1	...These protocols and procedures <u>might</u> include, for example, an ethics policy or internal whistle-blowing mechanism...
	R260.10 R360.9	“For the purpose of taking timely steps” does not read well. Suggest: Where a professional accountant becomes aware of a matter to which this section applies, the steps that the accountant takes to comply with this section shall be taken on a timely basis. For the purpose of taking timely steps, the accountant shall having regard to...
	260.17 A2	Contrary to legal or regulatory requirements, they have not reported <u>the matter</u> , or authorized the reporting of, the matter, to an appropriate authority within a reasonable period.
	260.23 A1 260.27 A1	The construct of these paragraphs would imply the accountant would have someone else document the matter, where it is more appropriate to place the expectation to document on the accountant him/herself. “In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the senior professional accountant is encouraged to <u>document the following</u> have the following matters documented: ”
	260.7 A1 360.7 A1	This statement is already in 100.1 and there seems no point in having it just here and not in other sections.

#	Respondent	Detailed Comment
		<p>A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance...</p> <p>R400.73 If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the auditor, the firm shall do so only if:</p> <p>(a) ...</p> <p>(b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit <u>engagement</u> or the individual responsible for the engagement quality control review <u>for the audit engagement</u>; and</p> <p>Placement of 540.5 A1 This paragraph sets out what to consider when evaluating the threats. This should be before proposed 540.4 A3 which sets out the actions that might be safeguards to address the threats. Alternatively, 540.A3 should be moved after 540.5 A2.</p> <p>R540.11 Where the individual has been appointed as <u>is</u> responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.</p> <p>R540.15 ...the cooling-off period shall <u>be</u>:</p> <p>(a) As an exception to R540.14 and subject to R540.18, be five consecutive years where the individual has been the engagement partner for three or more years; or</p> <p>(b) Be Three consecutive years in the case of any other combination.</p>

#	Respondent	Detailed Comment
		<p>940.5 A1 Factors, individually or in combination, that are relevant to evaluating the level of any threats created from an individual being involved in an assurance engagement <u>of a recurring nature</u> over a long period of time include:</p> <p>R800.6-9 and R999.7-8 The extant Code is clear in this respect and the addition of “need”/“need not” wording is confusing. Suggest: R800.6 When the firm performs an eligible audit engagement, the firm does not need to apply the additional independence requirements set out in Part 4A (excluding this section) that apply only to public interest entity audit engagements <u>do not apply</u>. R800.7 When the firm performs an eligible audit engagement, references to audit client in Part 4A (excluding this section) do not need to include its related entities. R800.8 When the firm performs an eligible audit engagement, the specific independence requirements regarding network firms set out in Part 4A (excluding this section) do not need to be applied apply. R800.9(a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only apply to the members of the engagement team, their immediate family members and close family members,</p> <p>900.10-12 We suggest moving 900.10 to 900.12 together with the Requirements and Application guidance related to assertion-based and direct reporting assurance engagements. It is confusing to describe these engagements in two different places.</p> <p>900.12 In a direct reporting assurance engagement, the professional accountant either (a) Directly performs the evaluation or measurement of the subject matter; or (b) Obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users.</p>

#	Respondent	Detailed Comment
		<p data-bbox="737 264 1944 329"><u>[separate paragraph]</u> The subject matter information is provided to the intended users in the assurance report.</p> <p data-bbox="499 378 1749 443">900.30 A1 The engagement period starts when the assurance team begins to perform assurance services <u>with respect to the particular assurance engagement</u>.</p> <p data-bbox="499 492 1818 589">905.5 A1 The second sentence in 905.5 A1 which refers to relevant material in Section 911 should go after R905.7, which is the first time the question of evaluating whether the overdue fees might be equivalent to a loan is mentioned.</p> <p data-bbox="499 638 1803 898">910.4 A1 The use of “beneficial” is incorrect where the owner has control: A financial interest might be held directly or held indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When an <u>beneficial</u> owner has control over the intermediary or the ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.</p> <p data-bbox="499 946 1776 1044">910.5 A1 It is confusing to have “materiality” in inverted commas, as it is not in the glossary nor a defined term. Suggest removing inverted commas here and in other paragraphs where it appears such as 911.4 A1.</p> <p data-bbox="499 1092 1818 1271">R910.11 This paragraph is more confusing combined than if contained in two separate Requirements followed by the relevant application material. In addition, including references in the Requirements paragraph to the relevant Application guidance is not used in the rest of the provisions. Suggest splitting R910.11(a) and (b) into two different Requirements that are joined with the relevant Application guidance.</p>

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		<p>R910.11 In the following circumstances related to financial interests, the firm shall apply the conceptual framework set out in Section 120:</p> <p>(a) ...</p> <p>(b) If an assurance team member knows that a financial interest is held <u>in the assurance client</u> by other individuals, including: ...</p> <p>Titles in section 911 For additional clarity: Loans and Guarantees made to with an Assurance Client Loans and Guarantees <u>from with</u> an Assurance Client that is a Bank or Similar Institution Loans and Guarantees <u>from with</u> an Assurance Client that is not a Bank or Similar Institution</p> <p>911.6 It is unclear who this paragraph applies to. Suggest: If a loan <u>to a firm</u> from an assurance client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the assurance client or firm receiving the loan...</p> <p>920.4 A1 It is unclear why “significance” is reference in inverted commas in this paragraph however not then clarified or defined. Suggest deleting “...and the “significance” of a business relationship.”</p> <p>921.2 Family or personal relationships between firm <u>assurance team members and their immediate family</u> and client personnel might create self-interest, familiarity or intimidation threats.</p> <p>921.4 A1 Threats might be created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client. Factors that are relevant in evaluating the level of any such threats include:</p>

#	Respondent	Detailed Comment
		<ul style="list-style-type: none"> • The individual's responsibilities on the assurance team. • The role of the family member or other individual within the client, and <u>[new bullet]</u> the closeness of the relationship. <p>R921.6 This paragraph contains a prohibition regarding relationships with individuals who can exert influence over the <i>subject matter information</i> of the assurance engagement. This prohibition should come before 921.5 A1-A3, which then provides guidance of how to evaluate threats related to relationships with individuals who can influence the <i>subject matter</i> of the engagement.</p> <p>921.8 A1 and 922.5 A2 Factors that are relevant in evaluating the level of any threats ...include:</p> <ul style="list-style-type: none"> • ... • ... • The role of the assurance team member <u>on the assurance team</u> <p>921.8 A2 An example of an action that might address threats created by close relationships of assurance team members is structuring the responsibilities of the assurance team so that the audit <u>assurance</u> team member does not deal with matters that are within the responsibility of the individual with whom the assurance team member has a close relationship.</p> <p>R924.5 R924.5 If a former partner, <u>or a former assurance team member</u>, joins an assurance client of the firm or a former assurance team member joins the assurance client as:</p> <p>924.5 A3 The requirement to apply the conceptual framework also applies if, prior to an entity becoming an <u>assurance</u> client of the firm, a former partner of the firm has joined the entity in a position set out in paragraph R924.5.</p>

#	Respondent	Detailed Comment
12.	EYG	<p>Yes, we believe the proposed revisions to the Code are consistent with the key elements of the restructuring as described in Section III of this Explanatory Memorandum. However, we have identified certain sections of revised text where understandability might still be further enhanced or clarified, and our detailed observations in this regard are included in the Attachment.</p>
13.	FAR	<ul style="list-style-type: none"> • <i>Increased prominence of the requirement to comply with the fundamental principles and apply the conceptual framework.</i> The increased prominence is notably the repeated references made to part 120 in each introduction of a Section. In FAR’s opinion this does not heighten the reader’s awareness of the fundamental principles and the conceptual framework, but serves only as text that is not read, having no real content. FAR does appreciate that more explicit references are made to specific fundamental principles and threats to these throughout the Code. This gives an increased prominence to comply with the fundamental principles and apply the conceptual framework. However, FAR would like to join other respondents, in expressing the fear that the restructuring overall appears to be a shift towards a more rules-based Code and a move away from the principle-based approach. The strength and utility of the Code derives from a principle-based approach that establishes a mind-set of adhering to the fundamental principles and using the conceptual framework to address threats. • <i>Requirements in paragraphs identified with an “R”, distinguished from other material and application material generally positioned next to the relevant requirements in paragraphs marked with “A”</i> Contrary to the intent expressed by the IESBA, the impression on reading through the compilation of proposed restructured Code, is that it has become more complex and it takes more of an effort to understand the contents than before. This might partly be because each section starts with an introduction that does not seem to have any concrete meaning except adding text to the Code. Further, the division into paragraphs marked “A” and “R” does not serve to make the Code more accessible. This might be because some parts lack an introductory requirement. As a reader, one expects to find one or more requirements at the beginning of a Section (or subsection) followed by application material that deals with how to apply the requirement. This is often, but not always, the case. FAR would suggest (contrary to the key elements of the restructuring described in the Explanatory Memorandum) that where there is no requirement (see for example, Section 320, 320.4 A1-2 and 320.5A1-3), the paragraphs should not be marked with an “A”. FAR’s suggestion is to keep the “Rs”, marking the requirements, but remove the “As” – as anything that is not marked “R”, should be application material. • <i>Increased clarity of responsibility</i>

#	Respondent	Detailed Comment
		<p><i>In the proposal, phrases such as “members of audit teams, firms and network firms” have been replaced by “firms”. As the Code is applied by individual professional accountants, placing the responsibility in the Independence sections with the firms, seems inappropriate. In FAR’s opinion, this serves to lessen the clarity of responsibility rather than increasing it.</i></p> <ul style="list-style-type: none"> • <i>Increased clarity in drafting</i> <p><i>FAR finds that much improvements have been made on increasing the clarity by shortening sentences and replacing the passive form with the active form. FAR hopes that even further efforts will be made to increase the clarity in drafting, in particular with the aim of making the text as a whole more consistent.</i></p>
14.	FSR	<i>Supports the comments made by Accountancy Europe.</i>
15.	GTI*	GTIL believes the proposals are consistent with the key elements of the restructuring as described in Section III of this Explanatory Memorandum.
16.	HICPA	N/A
17.	ICAEW	<p>14. A table of contents might be useful at the start of each section.</p> <p>15. It is unclear why it has been decided not to bolden the requirement paragraphs, rather than rely on an R in the paragraph labelling, which is more difficult to spot. Several respondents to the ED1 consultations made this suggestion.</p> <p>16. IESBA seems to have a slightly counterintuitive hierarchy of sub headings, with italic headings taking precedence over plain headings at what seems to be the third and fourth levels. This can lead to confusion about what is included within what heading (examples include 900.15 to 900.22, and in the reworked ED1 material, section 320).</p> <p>17. A number of references remain in the restructured code to situations where accountants are ‘expected’ to perform or refrain from performing, an action. Given the purpose of enhancing clarity it is not clear if this a requirement or advice.</p> <p>18. A number of gaps are included both within and between sections, leading to statements such as ‘paragraphs x to y are intentionally left blank’. While this is not particularly elegant, we agree with the approach, which will allow future changes without disturbing existing paragraph numbering.</p>
18.	ICAEW SW TAC	Yes the proposals appear to be broadly consistent with the bullets. The newly structured code is a reasonable read with sections becoming standalone aiding the reader to pinpoint relevant sections as needed.
19.	ICAP	Yes, the proposals given in the Code are consistent with the key elements of the restructuring as described in Section III of the

#	Respondent	Detailed Comment
		Explanatory Memorandum.
20.	ICAS	Generally, we believe that the proposals are consistent with the key elements of the restructuring as described in Section III of the Explanatory Memorandum. We would however draw your attention to the points raised above.
21.	IDW	<p>We comment on each of the five key elements of the restructuring as described in Section III of the Explanatory Memorandum in turn:</p> <p><i>2.1 Increased prominence of the requirement to comply with the fundamental principles and apply the conceptual framework:</i></p> <p>Repeated Reference to Overall Requirement</p> <p>In response to the ED Phase 1 of this project, we have previously questioned the proposal to repeat the sentence “Professional accountants are required to comply with the fundamental principles and apply the conceptual framework ... to identify, evaluate and address threats” in the first paragraph of the introduction to each individual Section. Reading the “Compilation of the proposed restructured Code” it becomes clear that this overriding requirement is repeated in the lead in to each major chapter (i.e., R120. 3, R200.5, R300.4, R400.12, and R900.16). Repetition in each of the subsequent Subsections lengthens the Code and – other than acting as a reminder of the overall purpose of the Code and the overarching requirement, does not add value.</p> <p><i>2.2 Requirements – identification and differentiation from other material:</i></p> <p>Use of the Terms “Expectations” and “Encouraged to”</p> <p>We note several instances where application material refers to “expectations” of professional accountants. Notwithstanding the placement of such text in application material, the use of such terminology does mean that the authority of this text may be less clear than is desirable in the restructured Code.</p> <p>For example, the second sentence of proposed 200.5 A3 implies that any professional accountant in a suitably senior position in an organization ought to live up to the expectation and thus encourage and promote an ethics-based culture. The extent of such an implicit requirement remains unclear. As a minimum it could be a requirement applicable to all professional accountants not to discourage/ play down such a culture; as a maximum it could be a requirement – conditional on the professional accountant holding a suitably senior position – to actively encourage and promote this (this may problematic to the extent that taking any necessary concrete measures may not be in the remit of the role assigned to that individual).</p>

#	Respondent	Detailed Comment
		<p>Paragraph 20 of ISQC 1 establishes requirements for the firm in this context.</p> <p>Further examples of expectations include: 260.12 A1, 260.24 A1, 360.10 A2, 360.29 A1, 905.6 A1.</p> <p>We also note instances where “professional accountants are encouraged to ...” In many cases the term “encouragement” is used in relation to documentation. However, in regard to documentation, we note that throughout the ED there are also other scenarios where documentation is not mentioned (e.g. relating to independence), and yet others where specific documentation is required. Whilst it may thus be clear that encouragement to document is not intended to equate to a requirement, we are concerned that where such guidance is specifically provided this could be perceived as representing best practice and thus be perceived as a de facto requirement. Some reference to the exercise of professional judgement or as to when such encouraged action might be particularly appropriate and when not would be helpful.</p> <p>We note the use of encourage in: 210.8 A3, 210.9 A1, 220.13 A2, 270.5 A1, 260.23 A1, 260.27 A1, 360.40 A1.</p> <p><i>2.3 Application material – identification and positioning</i></p> <p>There are two key issues included in the application material that, in our view, ought to be far more prominent:</p> <p>Legal Prohibitions</p> <p>260.20 A1 refers to the existence of legal prohibitions in some jurisdictions (e.g., Germany) that preclude reporting of NOCLAR to external parties. The significance of this text to professional accountants who are affected is such that it needs to be far more prominent. This should therefore be placed within the relevant requirements (R260.21 and R360.26).</p> <p>Inconsequential Matters</p> <p>Proposed Part 2 includes a reference to clearly inconsequential matters in para 260.7 A3, and is thus limited to the NOCLAR Section. This important clarification ought not to be limited to the Section on NOCLAR alone, but be extended to all circumstances giving rise to potential threat covered by the Code, since a clearly inconsequential matter can per se generally not be deemed to threaten – above an acceptable level – compliance with a fundamental principle anywhere in the Code. The IESBA should revisit the relevance of the term “clearly inconsequential” to the Code as a whole, and its interaction with identification and/or evaluation of threats at an acceptable level.</p> <p>In many instances, the fact a professional accountant is faced with a clearly inconsequential matter will mean that – in relation to that matter – in practical terms, the professional accountant will not need to comply with the relevant requirements of the Code.</p>

#	Respondent	Detailed Comment
		<p>I.e., a matter that is “clearly inconsequential” can, by its very nature, be a limiting factor as far as the applicability of the Code is concerned.</p> <p>If the IESBA believes that there are circumstances where this can never be the case, these could be addressed individually.</p> <p>2.4 Increased clarity of responsibilities:</p> <p>We appreciate the fact that the IESBA has decided to clarify which parties have certain particular responsibilities. The Code is, however, designed for application by individuals, who are professional accountants, as opposed to firms. The extant Code uses phrases such as: “members of audit teams, firms and network firms” (see 290.4 and 290.1) in relation to independence. The proposed international independence standards in the restructured Code refer to firms. In certain instances the actual act of compliance with a fundamental principle can only be achieved by individuals and thus the firm’s responsibilities extend to ensuring that the individuals professional accountants who comprise the firm’s partners and staff do comply, e.g., exercise due care etc. We suggest rather than drafting all requirements in terms of the firm, there needs to be more clarification of this or, in some cases, a distinction between the firm and its personnel may be necessary.</p> <p>2.5 Increased clarity in drafting</p> <p>We refer to our response to question 1 above in which we point to a few examples where changes to extant text result in less clarity compared to the wording of the extant Code.</p> <p><i>Inconsistent Coverage in the Application Material</i></p> <p>There is a lack of consistency in drafting the second sentence of the introductions dealing with specific matters. In some cases these paragraphs state the nature of the threat, but do not clarify which of the fundamental principles’ compliance might be threatened (e.g., 220.2, 270.2). In others, both the nature of the threat and the fundamental principle(s) the compliance with which might be threatened is(are) stated (e.g., 210.2, 230.2, 240.2). In others only the fundamental principle(s) the compliance with which might be threatened is(are) stated, but not the nature of the threat (e.g., 260.2). Clarity and understanding might be improved if this were dealt with in a consistent manner. For example we question why 540.2 has been revised so as to delete the explanation that long association may impact objectivity and professional skepticism.</p> <p><i>Reduction of the use of the word “generally”</i></p> <p>We question whether the proposed replacement of “generally” with “usually” in 200.5A2 is helpful. It would be preferable for</p>

#	Respondent	Detailed Comment
		<p>the Board to revisit this text, for example, if the IESBA believes that a professional accountant who - in promoting the position of the employing organization when furthering legitimate goals and objectives of the employing organization - does not make a statement that is false or misleading might create an advocacy threat, it would be helpful to give examples.</p> <p>In any case, the impact on the requirement in R200.5 needs to be clear. We note that similar issues elsewhere have been dealt with differently on an awareness-only basis (e.g., R800.7, R800.8 R900.18).</p> <p>Placement of Material</p> <p>R200.8 and R200.9 together with accompanying application material deal with communication with those charged with governance. Such communication appears only relevant to the extent that it may constitute a safeguard measure in certain circumstances. This aspect is not clear from its placement, and so a brief explanation to this end would be helpful.</p> <p>It is unclear to which requirement the application material in 200.7 A1 is intended to relate. Indeed, this material (unethical behavior by others) would appear more appropriately placed in or near to the Subsection dealing with NOCLAR, as the potential threat seems to be similar in nature. We accept that the issue of unethical behavior by others does not equate to NOCLAR, but suggest that any threat resulting from knowledge of unethical behavior by others would be a threat to the fundamental principles of integrity and professional behavior as explained in proposed 360.2.</p> <p>New Text</p> <p>IESBA proposes each Section contain one or more new paragraphs in its introduction. In regard to proposed 900.1, we question the need for examples. If examples are deemed helpful, we question whether more examples ought to be provided.</p> <p>Unclear Wording and Related Translation Issues</p> <p>The term “consider” is often subject to various interpretation in English, but also poses difficulties on translation. For this reason standard setters such as the IAASB have chosen to avoid using this term where possible. We note that there are many requirements for the professional accountant to consider certain courses of action (e.g., R220.9, R220.12, R260.9, R360.14, R360.17, R360.26 etc.). There are even more instances of its use in application material. Wherever possible an alternative term would be preferable, so that it is clear exactly what the requirement is intended to entail.</p> <p>The IESBA’s use of the word “may” is explained in no. 10 and 11 of the Section entitled “How to Use the Code”. This notwithstanding to reduce the potential for mistranslation, it would be preferable to use a different term for situations denoting permission (e.g., “the professional accountant is permitted to ...”, or “it is permissible for the professional accountant to ...”).</p>

#	Respondent	Detailed Comment
		360.28 A1 seems to be missing text. It should be clear that where the Code’s NOCLAR provisions extend beyond matters identified in an audit according to ISAs additional documentation of such matters is required.
22.	IRBA	<p>1.2. Yes. The proposed amendments are an improvement to the extant Code. Additionally, the comments on Phase 1 of the IESBA Project on improving the Structure of the Code have been adequately considered in the Basis of Agreement.</p> <p>1.3. The clarity and readability of the recently released final amendments relating to Long Association of Personnel with Audit and Assurance Clients and Responding to Non-compliance with Laws and Regulation have been improved under the restructured Code. The restructured format allows for easier recognition of requirements and application material.</p> <p>1.4. However, the restructure does not address clarifications required by detailed Staff Published Frequently Asked Questions on both these topics. In the future, more effort should be placed on clarifying important concepts in the body of the Code, rather than in the Staff Frequently Asked Questions.</p> <p>1.5. The reorganisation of the Code is welcomed. Hopefully, this will result in less renumbering of the paragraphs in the future, as independence sections are at the end of the Code.</p> <p>1.6. We are unsure whether the retitling of the independence section to <i>International Independence Standards</i> (IIS) serves much purpose, as the format of the independence section is still the same.</p> <p>1.7. We appreciate the effort that has been made to make sentences shorter and less complex. However, sections 540 and 940 on Long Association of Personnel with Audit and Assurance Client are still confusing. While we appreciate that this is a rather complex topic, we encourage the Board to spend more time simplifying the layout, e.g. the additional cross referencing between paragraphs is unhelpful.</p> <p>1.8. While there has been increased clarity regarding responsibility, we note that there have been certain unintended changes between firm and network firm. We make detailed reference to these in the IRBA Comment Letter on Safeguards Phase 2.</p>
23.	ISCA	N/A
24.	JICPA	<p>We do not believe that the proposals are consistent with the key elements of the restructuring in the following points:</p> <p>1) In order to improve usability of the Code, the numbering should be more understandable, straightforward and consistent with the rule for grouping which should be easy to search. This exposure draft adopts the numbering system with respect to numbering paragraphs of “application material” where the grouping based on theme is numbered before the letter “A” and an</p>

#	Respondent	Detailed Comment
		<p>index number is placed after the letter “A” for each detailed provision like XX.1 A1, XX.2 A1, XX.2 A2 and XX.3 A1. However, it seems that the grouping rules and numbering system are not always unified and consistent.</p> <p>For example, in the paragraphs “Other Considerations,” there is an instance where different themes are bundled in the same group (e.g. 220.14 A1 and 220.14 A2) under 220.14 while in another instance different themes are grouped separately (e.g. 210.9 A1 and 210.10 A1). We believe that a simple sequential numbering system applied in the extant Code is more straightforward and easier to search.</p> <p>2) Paragraph 220.4 A1 is followed by paragraph 220.5 A2. We believe this is a mistake for 220.5 A1 meaning 220.5A2 should be 220.5A1 and therefore, needs a correction.</p> <p>3) Paragraphs 900.7 and 900.8 of Part 4B which prescribes independence for assurance engagements other than audit engagements are a rearrangement of the provisions set forth in paragraphs 291.2 and 291.12 of the Extant Code without altering their contents. These paragraphs 900.7 and 900.8 have similar wordings with some overlapping in part. Therefore, we propose to combine the contents of these paragraphs 900.7 and 900.8 into paragraph 900.7 and delete paragraph 900.8 as follows:</p> <p>[Exposure Draft]</p> <p>900.7 Assurance engagements are designed to enhance intended users’ degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. The <i>International Framework for Assurance Engagements</i> (the Assurance Framework) describes the elements and objectives of an assurance engagement and identifies engagements to which ISAEs apply. For a description of the elements and objectives of an assurance engagement, refer to the Assurance Framework.</p> <p>900.8 In an assurance engagement, the professional accountant expresses a conclusion designed to enhance the degree of confidence of the intended users (other than the responsible party) about the outcome of the evaluation or measurement of a subject matter against criteria. For further explanation, see the Assurance Framework.</p> <p>[Proposed Revision]</p> <p>900.7 Assurance engagements are designed to enhance intended users’ degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. The <i>International Framework for Assurance Engagements</i> (the Assurance Framework) describes the elements and objectives of an assurance engagement and identifies engagements to which ISAEs apply. In an assurance engagement, the professional accountant</p>

#	Respondent	Detailed Comment
		<p>expresses a conclusion designed to enhance the degree of confidence of the intended users (other than the responsible party) about the outcome of the evaluation or measurement of a subject matter against criteria. For further explanation, see the Assurance Framework.</p>
25.	KICPA	<p>Reviewing proposals, they are confirmed to contain features as follow:</p> <ul style="list-style-type: none"> • making requirements in paragraphs, designed for compliance of the Code of Ethics and application of conceptual framework, more outstanding, • identifying requirements in paragraphs with an “R” and positioning application material next to the relevant requirements in paragraphs identified with an “A,” making it easy for requirements in paragraphs to be distinguished, • enabling identification of a firm’s responsibilities or those of particular professional accountants, thereby increasing clarity of responsibility, and • using simpler and shorter sentences and simplifying complex grammatical structures, thereby increasing clarity in drafting. <p>These features maintain consistency with the key elements of the restructuring as described in Section III.</p>
26.	KPMG*	<p>We believe that the proposals in the ED are consistent with the key elements of the restructuring as described in Section III of the Explanatory Memorandum.</p>
27.	MIA	<p>Please refer to our comments below for respective paragraphs of this ED.</p> <p><u>(i) Paragraph 220.5 A2</u></p> <p>We find that Paragraph 220.5 A2 should be labelled as Paragraph 220.5 A1 instead as such paragraph is a different application material that is independence from its preceding and subsequent paragraphs, i.e. Paragraph 220.4 A1 and Paragraph 220.6 A1.</p> <p><u>(ii) Paragraph 230.5 A1</u></p> <p>We find that Paragraph 230.5 A1 should be labelled as Paragraph 230.6 A1 instead as such paragraph is a different application material that is independence from its preceding paragraph, i.e. Paragraph R230.5.</p> <p><u>(iii) Paragraph R900.32</u></p>

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		<p>We suggest that Paragraph R900.32 be modified in order to increase the clarity of the paragraph as below:</p> <p><i>“Subject to Paragraph R900.33, if a non-assurance service was provided to the assurance client during or after the period covered by the subject matter information but before the assurance team begins to perform assurance services and the service would not be permitted during the period of the assurance engagement, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the The firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.”</i></p> <p><u>(iv) Paragraph 910.11 A3</u></p> <p>We suggest that Paragraph 910.11 A3 be modified in order to be consistent with the previous paragraph and increase clarity of the paragraph as follows:</p> <p><i>“An example of an action that might be a safeguard to address threats set out in paragraph R910.11(b) is having a professional accountant review the work of the assurance team <u>member</u>.”</i></p> <p><u>(v) Paragraph 921.4 A1</u></p> <p>We recommend that Paragraph 921.4 A1 be modified in order to have clearer presentation as follows:</p> <p><i>“Threats might be created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client. Factors that are relevant in evaluating the level of any such threats include:</i></p> <ul style="list-style-type: none"> • <i>The individual’s responsibilities on the assurance team.</i> • <i>The role of the family member or other individual within the client, <u>and the closeness of the relationship</u>.</i> • <i><u>The closeness of the relationship.</u>”</i>
28.	MICPA	Yes, MICPA believes that the proposals are consistent with the key elements of the restructuring as described in Section III of this Explanatory Memorandum.
29.	MNP	N/A
30.	NZAuASB	The NZAuASB agrees that the proposals are consistent with the key elements of the restructuring as described in Section III of the Explanatory Memorandum. However, as noted in the overall comments and in the comments on specific paragraphs, there is room for improvement.

#	Respondent	Detailed Comment
		<p><u>II Editorial Suggestions</u></p> <p><i>Added text is underlined, deleted text is struck through.</i></p> <p><i>General</i></p> <p>Each section contains an applicability paragraph stating that “... section [xxx] sets out specific requirements [and/or application material, as applicable] relevant to applying the conceptual framework...” The use of “specific” as well as “relevant” in these sentences is unnecessary. A simpler construct would be “...section [xxx] sets out specific requirements [and/or application material, as applicable] relevant to [or specific to] applying the conceptual framework. ...”</p> <p><i>(From the Compilation of Proposed Restructured Code³) Paragraph R521.8 (b)</i> It appears that the paragraph is split incorrectly. Sub-paragraph (b) should follow the first “or” in sub-paragraph (a) and read as follows:</p> <p style="padding-left: 40px;">An audit team member shall consult in accordance with firm policies and procedures if the audit team member has a close relationship with an individual who is not an immediate or close family member, but who is:</p> <p style="padding-left: 40px;">(a) A director or officer of the audit client; or an employee in a position to exert significant influence over the preparation of the client’s accounting records; or</p> <p style="padding-left: 40px;">(b) <u>An employee in a position to exert significant influence over the preparation of the client’s accounting records;</u> or the financial statements on which the firm will express an opinion.</p> <p><i>Paragraph 240.4 A3</i> may not accurately reflect the wording of the requirement in R120.7, which requires the professional accountant to evaluate whether a threat to compliance with the fundamental principles is at an acceptable level. Paragraph 240.4 A3 states, “a professional accountant is required to evaluate the nature of the financial interest.” Close-off document: Part C (Phase 1) states, “...a professional accountant in business shall evaluate the nature of the interest...” The wording of paragraph 240.4 A3 is consistent with the Close-off document, but it is not clear in the restructured Code where the source of the original requirement is, nor whether the wording of the “required to” statement is consistent with the original requirement. Further, in the next sentence, present tense is used, stating “this includes evaluating the significance of the financial interest”. It is not clear whether the present tense statement is also a requirement on the professional accountant. A requirement to evaluate the nature and significance of the financial interest may be more appropriate.</p>

³ Compilation of Proposed Restructured Code as of January 2017, paragraph R521.8, Page 112

#	Respondent	Detailed Comment
		<p><i>Paragraph 360.4 A1</i> – the words “by the following parties” have been inserted. These words are not necessary and for clarity could be deleted.</p> <p>Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</p> <ul style="list-style-type: none"> (a) A client; (b) Those charged with governance of a client; (c) Management of a client; or (d) Other individuals working for or under the direction of a client. <p><i>Paragraph 360.5 A1</i> – contains the words “non-compliance with laws and regulations.” These words are not needed, as use of non-compliance with laws and regulations is defined as “non-compliance” in 360.4 A1.</p> <p>A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of providing a professional service to a client. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to it.</p> <p><i>Paragraph 360.8 A1</i> The terms “client” and “entity” are used inconsistently. Sub-paragraph (b) refers to the entity, but sub-paragraph (d) refers to the client. These terms should not be used interchangeably, but rather one term should be identified and used consistently throughout the Code. “Entity” is also used in paragraph R360.9. Also, in the heading above paragraph 360.8 A1 “Responsibilities of the Client’s Management and Those Charged with Governance,” the words “the client” could be removed without changing the meaning. The two headings would then be “Responsibilities of Management and Those Charged with Governance” and “Responsibilities of Professional Accountants”, and would be more consistent. For example:</p> <p style="padding-left: 40px;">Responsibilities of the Client’s Management and Those Charged with Governance</p> <p style="padding-left: 40px;">Management with the oversight of those charged with governance, is responsible for ensuring that the client’s business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:</p> <ul style="list-style-type: none"> (a) The client; (b) An individual charged with governance of the entity <u>client</u>; (c) A member of management; or

#	Respondent	Detailed Comment
		<p>(d) Other individuals working for or under the direction of the client.</p> <p><i>Paragraph R360.18</i> – This paragraph has a very unusual construct. As there is no common lead-in to the sub-paragraphs, two separate paragraphs may be more appropriate. Additionally, in sub-paragraph (a), it is not clear what the words “shall take steps to have the matter communicated to” intend. This could be more simply drafted as “shall communicate to...” Similarly, in sub-paragraph (b) the requirement to “arrange for appropriate inquiries to be made” could be more simply drafted. In addition, <i>paragraph 360.18 A2</i> refers to making inquiries of publicly available information. One does not ordinarily make inquiries of information. We recommend the following changes:</p> <p>R360.18 (a) If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R360.17(a) and (b), the group engagement partner shall take steps to have the matter communicated <u>the matter</u> to those performing work at the components, unless prohibited from doing so by law or regulation.</p> <p>(New paragraph) (b) If necessary, the group engagement partner shall arrange for appropriate <u>obtain information about whether inquiries to be made as to whether</u> the relevant component(s) specified in paragraph R360.17(b) is subject to audit and, if so, to ascertain to the extent practicable the identity of the auditor.</p> <p>360.18 A2 For the components specified in paragraph R360.17(b), the <u>information inquiries</u> might be <u>obtained by making inquiries made either</u> of management or <u>obtained</u> from publicly available information.</p> <p><i>Paragraph 360.24 A1</i> The word “or” has been removed in making the list. Adding “or” to the penultimate consideration would indicate that not all actions are necessary. In addition, “might” is used twice within the same sentence.</p> <p>As a <u>C</u>onsideration of the matter might involve complex analysis and judgments. <u>Accordingly</u>, the professional accountant might consider</p> <ul style="list-style-type: none"> • Consulting internally;<u>;</u> • Obtaining legal advice to understand the accountant’s options and the professional or legal implications of taking any particular course of action;<u>;</u> <u>or</u> • Consulting on a confidential basis with a regulator or professional body. <p><i>Paragraph R540.8 and R540.9</i> In the close-off document, <i>Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client</i>, paragraphs 290.167 and 290.168 both use “when”. In paragraph R540.8, when</p>

#	Respondent	Detailed Comment
		<p>has been changed to “if” however, paragraph R540.9 still uses when. The NZAuASB questions whether the IESBA policy for using “when” and “if” is being consistently applied and recommends changing paragraph R540.9 for consistency.</p> <p>When <u>If</u> a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible...</p> <p><i>Paragraph 800.3 A1</i> The first two sentences of this paragraph may be clearer if combined. This construct also eliminates two of the three instances of “might” in these two sentences.</p> <p>The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating, <u>either directly or indirectly, through a representative who has authority to act for the intended users</u>, in establishing the nature and scope of the engagement. Such participation might be direct, or might be indirect through a representative who has authority to act for the intended users...</p> <p><i>Paragraph R800.4</i> The second sentence of this paragraph may fit better as part of the scoping of Section 800 following paragraph 800.2.</p> <p>The following wording, or similar, could be used:</p> <p>[New paragraph] When the audit of financial statements is required by law or regulation, the exceptions to the independence requirements in Part 4A are not permitted.</p> <p><i>Paragraph R800.5</i> This paragraph is a reminder that, if the firm also issues an audit report for the same client that does not include a restriction on use and distribution, Part 4A of the Code applies. The NZAuASB recommends removal of the “R” label and redrafting as follows:</p> <p>If the firm also issues an audit report that does not include a restriction on <u>distribution or use</u> and distribution for the same client, the firm shall apply Part 4A (excluding this section) <u>applies</u> to that audit engagement.</p> <p><i>Paragraph R800.6</i> This is an example of a permission paragraph that is labelled as a requirement. The following wording is suggested, along with removal of the “R” designation:</p> <p>When the firm performs an eligible audit engagement, the firm does not need to apply the independence requirements set out in Part 4A (excluding this section) that apply only to public interest entity audit engagements <u>are not applicable</u>.</p> <p>In paragraphs R800.7 and R800.8, the wording “do not need to” is unclear and confusing. The following construct may be simpler and less confusing:</p>

#	Respondent	Detailed Comment				
		<p>R800.7 When the firm performs an eligible audit engagement, references to audit client in Part 4A (excluding this section) do not need to include its related entities, unless. However, when the audit team knows or has reason to believe...</p> <p>R800.8 When the firm performs an eligible audit engagement, the specific requirements regarding network firms set out in Part 4A (excluding this section) do not need to be applied apply unless. However, when the firm knows or has reason to believe...</p> <p><i>Paragraph R800.9(a)</i> This paragraph could be simplified by removing the word “need”: The relevant provisions set out in Sections ... need apply only to ...</p> <p><i>Paragraph 905.4 A2</i> This paragraph provides examples of actions that are safeguards to address the threat created when total fees generated from a client represent a large proportion of the total fees of the firm. Increasing the client base in the firm to reduce dependence on the assurance client is one example of an appropriate action. This action may not always be possible. An alternative action, previously implied, in the extant Code was that the firm could eliminate work from the client, thereby reducing dependence on the assurance client with respect to large relative fee dependence.</p> <p>Examples of actions that might be safeguards to address the threats set out in paragraph 905.4 A1 include:</p> <ul style="list-style-type: none"> • Reducing the <u>Increasing the client base in the firm to reduce</u> dependence on the assurance client, <u>for example, by increasing the client base in the firm.</u> • External quality control reviews. • Consulting a third party, such as a professional body or a professional accountant, on key assurance judgments and taking appropriate steps following that consultation. 				
31.	PWC*	<p>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.</p> <table border="1" data-bbox="499 1192 1980 1243"> <thead> <tr> <th data-bbox="499 1192 783 1243">Paragraph</th> <th data-bbox="783 1192 1980 1243">Comment/observation</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> </tr> </tbody> </table>	Paragraph	Comment/observation		
Paragraph	Comment/observation					

#	Respondent	Detailed Comment	
		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	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. In addition, in comparison to 230.2, for example, this paragraph does not detail the fundamental principles that may be threatened.
		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	This paragraph contains a requirement for the professional accountant to <i>exercise professional judgement to identify and consider ...</i> 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.
		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.

#	Respondent	Detailed Comment	
		270.4 (b)	The word “ <i>would</i> ” might be replaced by “ <i>could</i> ” as this seems more appropriate.
		270.4 A2 (4 th bullet)	We suggest that this be re-ordered to read: <i>“Pressure from superiors, colleagues or others, for example, to manipulate performance indicators where it can influence their own compensation or other incentives”</i> This would be more consistent with the other sub-bullets.
		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	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. 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.
		R360.16	Should the header preceding this paragraph be in italics
		540.1	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”. 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”?

#	Respondent	Detailed Comment	
			Alternatively, if there is a good reason, Section 110 might explain how these terms are used.
		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.

#	Respondent	Detailed Comment
32.	RSM International	We have not noted any inconsistency with the key elements of the restructuring as described in Section III of this Explanatory Memorandum.
33.	SAICA	<p>In our view the task force could improve the current circular reference found in 200.4(b) of the restructured code dealing with applicability of Part 2 to the PAPP. This section refers the reader to section R120.4 120A1 and R300 and 300.5 A1 to find more information when Part 2 might be applicable to professional accountant in public practice. When performing a look up of the various sections, the reader will find both Section 120 and 300 state exactly the same thing which is advisory material giving a single example of a partner pressuring a clerk to adjust his charge out sheet. This is not user friendly referencing and in addition to being duplicative, in our view a PAPP, may feel let down due to the lack of guidance in the referenced sections. Whilst examples could be endless, better thought out guidance or examples covering a broader area of application would be more welcomed. Apart from the current pressure to breach example, other examples and references to other relevant sections in Part 2 would be more helpful.</p> <p>A few new examples where a PAPP would find Part 2 applicable are given below:</p> <ol style="list-style-type: none"> 1. Pressure to Breach (example included) (S270) 2. A partner or senior PAPP not complying with Laws and regulations, for example bribing revenue officials (NOCLAR) (S260) 3. A senior PAPP offering an inducement with intent to influence an intended outcome or to curry favour within the firm (S250) 4. A senior PAPP who knowingly is not declaring outside business of financial interests which profits from the firm, or benefiting personally from firm assets or Intellectual property. (S210 and S240) 5. A PAPP not disclosing a medical condition that may impair his ability to act with full mental capacity and due care (S230) 6. PAPP providing misleading information on their C.V's in terms of experience and skills (S220 and S230) <p>The examples could then be linked by reference to the various sections in Part 2 of the Code.</p>

#	Respondent	Detailed Comment
34.	UKFRC	We agree the proposals are consistent with the first 3 bullet points in paragraph 13 of Section III of the Explanatory Memorandum. However, while there are improvements in clarity compared to the extant Code, we believe there is more to be done to improve clarity including, in particular in relation to the responsibilities of firms and individuals (see our comments above). [In general compilation table.]
35.	WPK	Yes, we believe that the proposals are consistent with the key elements of the restructuring as described in Section III of this Explanatory Memorandum.

Question 3

Conforming Amendments Arising from the Safeguards Project

3. Respondents are asked for any comments on the conforming amendments arising from the Safeguards project. **Comments on those conforming amendments are requested by April 25, 2017 as part of a response to Safeguards ED-2.**

#	Respondent	Detailed Comment
1.	AAA	We ... concur with the conforming amendments arising from the Safeguards project.
2.	AAT	AAT believes that the proposals are consistent.
3.	ACCA	ACCA's response to the Safeguards ED-2 was submitted to the IESBA on 25 April 2017.
4.	AE	Accountancy Europe responded separately to the IESBA's exposure draft - Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments.
5.	AICPA	Please see our comments concerning the Safeguards project in our letter submitted on April 25, 2017.
6.	APESB	APESB's comments on the conforming amendments are included in our submission relating to the IESBA's Exposure Draft <i>Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments</i> .
7.	BDO*	We agree with the proposed effective dates for the restructured Code. We believe that June 15, 2019 should give firms sufficient time to communicate and train on any changes to the Code. We also greatly appreciate the Compilation of Proposed Restructured Code document. It has been and will continue to be very useful in preparing for any training or implementation issues that could arise.
8.	CAANZ	We have no additional comments and refer you to our response to the Safeguards ED.
9.	CHI	We have no comments about the conforming amendments.
10.	CPAC	As requested, we have separately communicated regarding the conforming amendments and Safeguards ED-2 in our response dated April 21, 2017.
11.	DTTL*	The proposals are substantially consistent with key elements of the restructuring however we have two substantive comments in this respect.

Requirements to apply the conceptual framework / evaluate threats

There continues to be inconsistency in how these requirements appear in the ED, both in comparison to the requirements of the extant Code, and within the ED provisions themselves. It is understood and agreed that references that merely repeat the requirement to apply the conceptual framework can be removed because the conceptual framework is now contained in Section 120 and references are made in each Introduction paragraph. However:

- There are “shall evaluate the threats” requirements in the extant Code which are not included in the restructured provisions that refer to specific additional circumstances that should not be omitted. For example, the last paragraph of extant 291.118 includes a requirement to evaluate threats in respect to business relationships between an immediate family member of the assurance team member and the assurance client, which is missing entirely in Section 902 (and perhaps should be located after paragraph R920.5).
- The restructured Code uses “shall evaluate and address any threats” and sometimes it uses “shall apply the conceptual framework set out in Section 120” (for example R910.11, and the last paragraph in R923.5). It is not clear whether these references imply the same or different requirements. R900.19 in fact includes both constructs in the same provision: *R900.19... (b) The firm shall apply the conceptual framework set out in Section 120 to relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement; and (c) The firm shall evaluate and address any threats that the firm has reason to believe are created by network firm interests and relationships.*

Requirements and responsibilities in application guidance

There are several places where the restructured provisions state that the professional accountant is “required” to do something or has a “responsibility”, which is contained within an Application material paragraph instead of a Requirement. It then becomes confusing as to how these “requirements” apply outside of the Requirements paragraphs. We suggest the Board ensure there is clarity and review every situation where “required” or “responsibility” is used in Application material.

Examples include:

- 220.7 A1 *The professional accountant is required to comply with the fundamental principles when preparing or presenting information...*
- 924.5 A3 (and 524.6 A1) includes an implied requirement “*The requirement to apply the conceptual framework also applies if, prior to an entity becoming a client of the firm, a former partner of the firm has joined the entity in a position set out in paragraph R924.5*”. This is also another example of the extant Code having a “shall evaluate the threats” applied to a specific additional circumstance that has seemingly been misplaced.

		<ul style="list-style-type: none"> • R220.8 is now a Requirement even though there is no corresponding “shall” in extant 320.3 • R220.10 includes both a “shall” and a reference to the “responsibilities” in 220.7 A1 • 900.6 states “<i>firms are required to apply...</i>”
12.	EYG	Our comments on the conforming amendments arising from the Safeguards project were submitted to the Board on April 25, 2017.
13.	FAR	<i>FAR has no further comments than those offered in the response to that ED.</i>
14.	FSR	Supports the comments made by Accountancy Europe.
15.	GTI*	Please refer to our comment letter submitted to the Board on April 25, 2017.
16.	HICPA	N/A
17.	ICAEW	See our response submitted on 20 April 2017.
18.	ICAEW SW TAC	N/A
19.	ICAP	N/A
20.	ICAS	Please refer to our separate response to that consultation.
21.	IDW	<p>We refer to our letter of April 25th, 2017 concerning the “Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice”. We continue to take issue with proposed text:</p> <p>R120.4 When facing an ethical issue, a professional accountant shall consider the context within which the issue has occurred. Where a professional accountant in public practice is performing professional activities pursuant to the accountant’s employment or ownership relationship with the firm, there might be requirements and application material in Part 2 that are also applicable to those circumstances. If so, the professional accountant in public practice shall comply with the relevant provisions.</p> <p>Reading proposed Section 2 in looking at the current project, it is clear that Section 200 is not designed for professional accountants in public practice as many of the examples are simply not relevant to their circumstances (e.g., 220.4.A1, as in this case independence requirements preclude an auditor from being involved in preparation and presentation of financial statements subject to audit). Thus, as we already commented in the afore-mentioned letter, the “applicability” to professional</p>

		accountants in public practice should not be to the entire Part 2, but limited to the three areas (conflicts of interest; pressure; and inducements), as this otherwise introduces burdens to individual practitioners – burdens that are likely disproportionate to those professionals who need to be familiar with material that may, in practice, turn out to be of no or only sporadic relevance to their professional activities and circumstances.
22.	IRBA	1.9. Please refer to the attached IRBA comment letter relating to Safeguards Phase 2, which details certain conforming amendments to the restructured Code that may require editing. 1.10. Please refer to the attached IRBA comment letter relating to Safeguards Phase 2, which details certain conforming amendments to the restructured Code that may require editing.
23.	ISCA	N/A
24.	JICPA	Concerning the conforming amendments arising from the Safeguards project, please refer to the comments submitted in April 2017 (JICPA comments on the IESBA Exposure Draft, <i>Proposed Revisions Pertaining to Safeguards in the Code - Phase 2 and Related Conforming Amendments</i>).
25.	KICPA	Please refer to our previous comments on the Q4 of the Proposed Revisions Pertaining to Safeguards in the Code-Phase 2 and Related Conforming Amendments.
26.	KPMG*	For comments on the conforming amendments arising from the Safeguards Project, please see our response to the Safeguards ED-2 submitted April 25, 2017.
27.	MIA	We have submitted our comments on the conforming amendments arising from the Safeguards project separately in a letter dated 19 April 2017.
28.	MICPA	No, MICPA does not have any comment on the conforming amendments arising from the Safeguards project.
29.	MNP	N/A
30.	NZAuASB	Please refer to the NZAuASB’s submission on Safeguards ED-2.
31.	PWC*	As requested we have commented separately on the Safeguards related changes in our response to that ED.
32.	RSM International	We do not have further comments on the amendments arising from the Safeguards project.

33.	SAICA	Yes. The proposed amendments are an improvement to the extant Code. Refer to safeguards comment letter for additional comments.
34.	UKFRC	Please refer to our response to the Safeguards ED-2 ¹ , where we comment on the conforming amendments to Chapter 2. Similar observations apply to the safeguards text that is presented in the Structure Phase 2 ED. In particular we would emphasise that it should be made clear in the requirements that threats are to be eliminated or reduced “to a level at which the fundamental principles would not be compromised”. This would help ensure that the professional accountant focuses on ensuring that threats are eliminated or reduced to a level where the third party test would be passed. We believe this (implicit) link to the third party test would accord with the expectations of stakeholders, support their confidence in the professional accountant, and be more likely to anchor the professional accountant to those expectations when evaluating threats and safeguards.
35.	WPK	Please see our corresponding comment letter to Safeguards ED-2.

Question 4

Effective Date

4. Do you agree with the proposed effective dates for the restructured Code? If not, please explain why not.

#	Respondent	Detailed Comment
1.	AAA	Regarding the effective date, we defer to the firms and regulators who have to implement the restructured Code. Therefore, we offer no specific comments on Chapter 5.
2.	AAT	AAT agrees with the proposed dates.
3.	ACCA	In our opinion, the benefits of introducing the provisions in section 540 and 940 (relating to long association) to be effective six months prior to the rest of the restructured Code becoming effective are outweighed by the complications of effecting two changes in quick succession. Such complications are particularly burdensome for SMPs, and threaten effective compliance with the Code. It is also inefficient to require implementation too soon after the issue of the restructured Code. This would threaten accurate translation of the Code, and would encourage a two-stage translation process – with the first phase based on draft text, and a second phase following the publication of the agreed final text.
4.	AE	Lastly, although we understand that IESBA has taken into account the anticipated approval dates for various sections of the Code currently under revision or restructuring, that will mean that some parts of the Code will be applicable in the old format, for a short period of time, in a very inefficient way. For the sake of consistency, we support only one application date – 15 June 2019. We do not foresee significant disadvantages in aligning the effective dates, as set out in paragraphs 20 and 21 of the explanatory memorandum, that could outweigh the positive practical implications of doing so.
5.	AICPA	We agree with the proposed effective dates for the restructured Code.
6.	APESB	APESB is supportive of the proposed effective dates for the restructured Code. APESB also strongly supports the IESBA in its plan to monitor developments in respect of the implementation of the long association provisions and the review of the effects of the jurisdictional clause before its expiry on 15 December 2023. APESB is of the view that for such a review to be effective, it should include gathering and consideration of empirical information relating to the impact of auditor rotation on audit quality.

#	Respondent	Detailed Comment
7.	BDO*	We agree with the proposed effective dates for the restructured Code. We believe that June 15, 2019 should give firms sufficient time to communicate and train on any changes to the Code. We also greatly appreciate the Compilation of Proposed Restructured Code document. It has been and will continue to be very useful in preparing for any training or implementation issues that could arise.
8.	CAANZ	<p>The changes to the Code are extensive. It is important that sufficient time is available for all stakeholders to prepare for the new Code. The current proposed application dates (15 June 2019 and for audits of financial statements beginning on or after 15 June 2019) allows approximately 2 years for all stakeholders to be prepared. Whilst this is challenging, particularly for small and medium sized practices, we believe it is achievable.</p> <p>A number of national standard setters (the Australian Accounting Professional and Ethical Standards Board in particular) commence their standard setting process after IESBA has finalised a standard. A longer period of time between completion of the pronouncement by IESBA and the application date would allow national standard setters to conduct their standard setting process, allow users sufficient time to implement new and revised standards and result in greater alignment of application dates between pronouncement of national standard setters and IESBA.</p>
9.	CHI	<p>We agree with the proposed effective dates.</p> <p>We note that different components of the restructured Code have different effective dates. Whilst it would be desirable for all components to have a single effective date this is clearly not feasible because of the nature of the components. It is therefore very important that IESBA clearly communicates the different effective dates. In particular, IESBA should work closely with national regulators and standard setters to make sure that there are no misunderstandings in the implementation of the Code.</p>
10.	CPAC	Overall, we believe that an effective date that is sooner rather than later is desirable. Without the experience of using and applying the IESBA Code, we recognize that there will be preparatory work ahead for those countries that have adopted the Code and that June 15, 2019 (transitional provisions noted for Sections 540 and 940), with early adoption permitted, appears to be reasonable.
11.	DTTL*	The effective dates generally appear reasonable. However, given that the code is translated in many jurisdictions, and then adopted into local law, the Board should consider whether one year is sufficient to allow for these processes.
12.	EYG	As already noted in our comment letter to the Exposure Draft on Safeguards ED-2, we are concerned that the proposed

#	Respondent	Detailed Comment
		effective date for the restructured Code of June 15, 2019 may not allow adequate time for successful implementation. The restructuring of the Code and the resulting changes to the conceptual framework introduce a whole new approach which will require time for regulators, firms and other interested parties to adopt and incorporate into their rules, regulations and policies. To maximize the substantial improvements resultant from the Structure Project, it is essential that the Board allow sufficient time for all such parties to properly adopt and implement the required changes. We believe that an extension to the effective date should be considered to allow for a more consistent and robust adoption of the revised Code.
13.	FAR	The IESBA's ambition to complete the restructuring project by December 2017 seems ambitious. The suggested effective date of December 2018 and June 2019 even more so. FAR would like to point out that the restructuring of the Code will entail a great amount of work for the firms who need to adapt their systems to entirely new references to the Code. There are also some, intended or unintended, changes to the content of the Code, especially with the parallel ongoing projects of IESBA, that will need to be considered by the users in the implementation of the "new" Code. In addition, there will be a major work of translation from English for a great number of the IESBA-members. In FAR's opinion, allowance must be made for a much longer period of implementation, with an effective date for the entire Code in June 2020, and in June 2021 for those who need to translate the Code.
14.	FSR	Supports the comments made by Accountancy Europe
15.	GTI*	GTIL agrees with the proposed effective dates for the restructured Code.
16.	HICPA	In addition, based on the proposed timeline of the IESBA projects, we agree with the proposed effective date for the restructured Code.
17.	ICAEW	19. Given that the application date for all of the other changes proposed is June 15 2019 or periods commencing on or after that date as appropriate, it seems to be unnecessarily complex to introduce the long association provisions just six months earlier, complicating matters significantly for implementers who wish to maintain the IESBA timetable. 20. We note that the jurisdictional clause in paragraph R540.18 now has an expiry date. This and a number of other aspects represent a significant change from the provisions subject to the limited re-exposure in February 2016. We note from the basis of conclusions relating to the close-off document that this was to address PIOB concerns but it is unclear to us why such significant changes should not be re-exposed in accordance with proper due-process.

#	Respondent	Detailed Comment
18.	ICAEW SW TAC	We acknowledge that not all jurisdictions are the same as our own and some may need longer to adapt however the effective date does seem quite away in the future. Our opinion is that it should be as soon as practical.
19.	ICAP	<p>We understand that IESBA plans to complete the Structure Project by issuing finalized restructured Code up for approval by December 2017.</p> <p>We also understand that following effective dates have been proposed for the restructured Code:</p> <ul style="list-style-type: none"> • section 540 and 940 will be applicable for periods beginning on or after December 31, 2018; • part 1, 2, 3, 4A (except section 540 & 940), 4B for periods beginning on or after June 15, 2019. <p>Our suggestion is that one effective date i.e. June 15, 2019, may be considered for the entire restructured Code, as this will provide more clarity and reduce confusion for the users of the Code.</p>
20.	ICAS	For simplicity, we support one effective date of 15 June 2019.
21.	IDW	<p>The proposals in regard to divergent effective dates are highly complex. To the extent that such complexity may serve to confuse and could lead to the Code not being adopted or adhered to where it is adopted, we consider this undesirable.</p> <p>Recent significant changes as well as the restructuring of the entire Code mean that many parties (e.g., professional accountants, regulators, educators etc.) will have to deal with issues such as, education, incorporation into firms' manuals and methodologies and – where applicable – translation, incorporation into national law or professional statutes etc. will have to be dealt with. The IESBA needs to be sensitive to this fact and should refrain from making changes in the near future so as to ensure a level playing field for the next several years.</p>
22.	IRBA	<p>We agree with the proposed effective date of the restructured Code.</p> <p>We would further caution against delaying the effective date. A delay in the effective date may lead to the question of the relevance and appropriateness of important recent amendments to the Code, for example, Long Association of Audit and Assurance Personnel.</p>
23.	ISCA	N/A
24.	JICPA	We agree with the proposed effective dates.
25.	KICPA	We support the proposed effective dates. Supposing that restructuring the Code is to be completed in December, 2017,

#	Respondent	Detailed Comment
		making the restructured Code effective on June 15, 2019 with an 18-month preparation period is believed to be appropriate. As discussed in the IESBA meeting last December, the 18 months of preparation period would be appropriate to cover adoption activities, including translation, along with accounting firms' additional actions to take regarding changes arising from the Safeguards project. As for the revised long association provisions, they are effective as of December 15, 2018, considering that partner rotation is conducted on a yearly basis. Advancing the date to December 15, 2018 (6 months earlier) would be appropriate, taking into account the fact that the revision does not require many preparations.
26.	KPMG*	While we appreciate the need to establish reasonable effective dates for each of the amendments to the Code, we believe that the release of selected amendments included in the current ED prior to the effective date of the restructured Code creates additional, unnecessary complexity. We suggest that a consistent effective date be applied to all of the proposed amendments.
27.	MIA	We agree with the proposed effective dates for the restructured Code. We believe that there is sufficient time available to prepare for the adoption of the restructured Code.
28.	MICPA	Yes, MICPA agrees with the proposed effective dates for the restructured Code.
29.	MNP	Further, we agree with the proposed effective dates of the restructured Code and believe that they provide sufficient time for professional accountants to familiarize themselves with, and implement, the changes.
30.	NZAuASB	The NZAuASB supports the proposed effective dates for the restructured Code.
31.	PWC*	<p>We support the proposals to make the restructured Parts 1, 2 and 3 of the Code effective on a single date (15 June 2019).</p> <p>We also support:</p> <ul style="list-style-type: none"> • 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.

#	Respondent	Detailed Comment
		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 15 th , 2019 and December 15 th , 2018 respectively) could have some unintended consequences when a period under review crosses the relevant date.
32.	RSM	We are in agreement with the proposed timeline as long as the restructuring of the Code is completed by December 2017.
33.	SAICA	Despite the large amount of changes that must be worked through by all concerned with the Code of Ethics for Professional Accountants, the time line appears to be acceptable.
34.	UKFRC	Subject to our comments above regarding the transitional period for the cooling-off requirement, if IESBA achieves its aim to complete the restructuring of the Code in December 2017, we believe the proposed effective dates are acceptable.
35.	WPK	We understand that IESBA has taken into account the anticipated approval dates for various sections of the Code currently under revision or restructuring. The result of this approach is that some parts of the Code will be applicable in the old format, for a short period of time, in a very inefficient way. For the sake of clarity and consistency, we support only one application date.