

Ken Siong
IESBA Technical Director
International Ethics Standards Board for
Accountants

Sent by email:
KenSiong@ethicsboard.org

Brussels, 22 May 2017

Subject: Consultation on Improving the Structure of the Code of Ethics for Professional Accountants—Phase 2

Dear Mr. Ken Siong,

Accountancy Europe is pleased to provide you with its comments on the IESBA Exposure Draft *Improving the Structure of the Code of Ethics for Professional Accountants—Phase 2* (the ED).

GENERAL COMMENTS

In our comments to the IESBA Exposure Draft *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1* dated 18 April 2016, we made the following remarks:

- The proposed title would be misleading as the intention is not to develop standards for all parts of the Code;
- 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.

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.

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.

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.

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 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.

Accountancy Europe's responses to the questions set out in the ED can be found in the appendix to this letter.

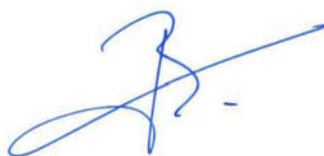
We appreciate the opportunity to provide input and hope that IESBA finds our comments helpful when amending the Code.

For further information on this Accountancy Europe letter, please contact Noémi Robert on +32 2 893 33 80 or via email at noemi@accountancyeurope.eu or Tiago Mateus on +32 2 893 3376 or via email at tiago@accountancyeurope.eu.

Sincerely,



Edelfried Schneider
President



Olivier Boutellis-Taft
Chief Executive

ANNEX 1 – REQUEST FOR SPECIFIC COMMENTS

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.

Accountancy Europe has no comments on this question.

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?*

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.

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.

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 *comply with relevant laws and regulations and avoid any action that discredits the profession*” and 150.1 which stated formerly “to *comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know may discredit the profession*”. In the compilation of proposed restructured Code – 110.1 (e), IESBA took this last definition making the principle more stringent.

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.

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.

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

Accountancy Europe will respond separately to the IESBA's exposure draft - Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments.

Effective Date

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

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.

Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- *Small and Medium Practices (SMPs) and PAIBs – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.*

It would be very useful to distinguish between provisions applicable to PIEs and non-PIEs in the proposed Code. This distinction could help make the provisions of the Code more understandable to SMPs. There is still room for improvement to make clear to SMPs what provisions of the Code are applicable to them or not.

We favor 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 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.

- *Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.*

Not applicable.

- *Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.*

Accountancy Europe has no comments on this question.

- *Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.*

For non-English-speaking countries and countries that have only recently translated the Code, modification of the structure of the Code will likely be very costly and time consuming in order to adapt their current provisions to the new structure.

Furthermore, a modification of this magnitude will probably lead to a longer translation period.