



To: Ken Siong
Technical Director
International Ethics Standards Board for
Accountants (IESBA)
kensiong@ethicsboard.org

(Also submitted via the IESBA website)

10 February 2015

Ref: PEC/PFK/NRO/NTA

Dear Mr Siong,

Re: Structure of the Code of Ethics for Professional Accountants

We are writing to you on behalf of FEE¹ with regard to the IESBA Consultation Paper *Improving the Structure of the Code of Ethics for Professional Accountants* (the Paper).

In our letter to the IESBA Chair dated 2 October 2013, we identified three ways in which the Code of Ethics for Professional Accountants (the Code) could be restructured in order to enhance its adoption and implementation:

- Reduce the length and clarify the language;
- Split off the independence section; and
- Separate the requirements and prohibitions from the application guidance and examples.

We are pleased to note that these recommendations have been taken into consideration by IESBA when drafting the Paper and would like to take this opportunity to provide further comments and clarification.

FEE's responses to the questions set out in the Paper can be found in the appendix to this letter. Our general comments are as follows:

- We welcome the fact that the Paper emphasises the importance of the principles-based conceptual framework and how it serves to protect fundamental ethical principles.
- The primary objective of this restructuring exercise should be to make the Code clearer and more understandable.
- It would be advantageous to distinguish between the fundamental principles and other concepts derived from those principles – or, in other words, to differentiate between provisions that deal with ethical requirements and provisions that require formal compliance and enforceability (such as the independence provisions currently included in section 290 and 291 of the Code).

¹ FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 47 professional institutes of accountants and auditors from 36 European countries, including all 28 EU member states. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 800,000 professional accountants working in different capacities in public practice, small and large firms, government and education – all of whom contribute to a more efficient, transparent and sustainable European economy.

- The existing link between the Code, ISQC 1 and ISAs should be maintained.
- It should be taken into account that EU countries are currently in the process of implementing major audit reforms and may therefore need more time to implement any changes to the structure of the Code. It should also be noted that, as yet, little feedback has been received from countries that implemented the Code in 2009.
- For non-English speaking countries and countries that have only recently translated the Code, the benefits of any proposed changes to the structure of the Code must outweigh the likely costs of adapting their current provisions to the new structure of the Code.

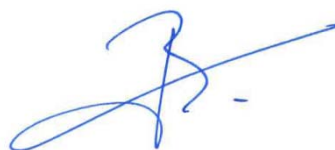
We are most grateful for this opportunity to provide further input and hope that IESBA will find our comments helpful when developing proposals to improve the structure of the Code.

Should you wish to discuss any of the issues raised in this letter, please do not hesitate to contact Noémi Robert by telephone (+32 (0)2 285 40 85) or by email (noemi.robert@fee.be).

Yours sincerely,



Petr Kříž
President



Olivier Boutellis-Taft
Chief Executive

APPENDIX

FEE's responses to the questions in the Paper

QUESTION 1

Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples, would be likely to achieve IESBA's objective of making the Code more understandable? If not, why not and what other approaches might be taken?

To some extent, we do believe that this approach would achieve IESBA's objective of making the Code more understandable.

We have some concerns, however, as to whether the objective of making the Code more understandable will only be achieved through the introduction of a far longer Code in which certain material is frequently repeated.

While we are in favour of making a distinction between the requirements, application guidance and other explanatory material, we wish to emphasise that this exercise must be undertaken very carefully. In the Illustrative Examples, for instance, Section 420 ('Business Relationships') includes a subsection ('Requirements') that classifies certain types of business relationship, but no definition of 'business relationship' is provided in either of the previous two subsections ('Terms Used in this Section' and 'Purpose of this Section'). Furthermore, the aforementioned subsection on requirements (420.004) refers to threats and safeguards for the purchase of goods or services, but it seems that there would be a full prohibition as soon as the listed criteria are met. It is only much later in 420.008 – in the application guidance and other explanatory material – that it is made clearer what the requirement actually means and that potential safeguards to mitigate a threat resulting from such specific business relationships are provided. We believe that this example highlights the risk that a specific subject or issue in a subsection will not be appropriately addressed or that certain threats and safeguards applicable only in a specific situation will be dealt with in separate subsections or separately in the requirements and application material. This would make the Code even less understandable and user-friendly than it is today.

We support the use of simplified language and wording, as this will lead to more effective translation of the Code.

We remain in favour of distinguishing the requirements dealing with independence in appearance (ie, current sections 290 and 291) from the other provisions of the Code – eg, by moving it into a separate section. Reference is made to our response to Question 4 below.

QUESTION 2

Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples would be likely to make the Code more capable of being adopted into laws and regulations, effectively implemented and consistently applied? If not, why not and what other approaches might be taken?

We do not believe that the restructuring of the Code as currently proposed will bring an increased likelihood of the Code being adopted and effectively implemented into laws and regulations. The legislative and regulatory frameworks used throughout the world are quite different, and even within certain countries different legislative and regulatory competencies may be responsible for different subjects addressed in the Code.

The aim of the revised structure should be to enable users and stakeholders to better understand how the fundamental principles apply, the circumstances in which a threats-and-safeguards approach is applicable and (where relevant) what is required from professional accountants in specific situations. This exercise may then contribute to improving clarity and consistency, and thus enhance implementation.

QUESTION 3

Do you have any comments on the suggestions as to the numbering and ordering of the content of the Code (including reversing the order of extant Part B and Part C), as set out in paragraph 20 of the Consultation Paper?

We are supportive of reversing the order of extant Part B and Part C for the reasons given in the Paper.

While we appreciate that it would be useful to structure the Code in a way that facilitates the future expansion of current topics and subtopics without the need to renumber existing paragraphs, the needs of the reader should come first. Having this in mind, we believe that the six-digit numbering convention used in the Illustrative Examples is rather complex and recommend that simpler alternatives be considered.

QUESTION 4

Do you believe that issuing the provisions in the Code as separate standards or rebranding the Code, for example as International Standards on Ethics, would achieve benefits such as improving the visibility or enforceability of the Code?

Linked to paragraph 7 of the Paper, which states that ‘the current structure [...] may impede compliance and enforcement’, we do not believe that rebranding the Code as, for example, International Standards on Ethics would be the right approach to take in its entirety.

We believe that the fundamental principles (particularly integrity and objectivity) primarily address the mindset and behaviour of the professional accountant. As such, these principles do not fit into a purely legalistic concept of compliance and enforcement. On the contrary, other concepts derived from these fundamental principles, such as independence in appearance as one aspect of objectivity, may well be subject to compliance and enforcement measures.

That said, it is important to distinguish between the fundamental principles and those principles that may result in standards. We believe that the fundamental principles as currently set out in Part A of the Code primarily address mindset and require the professional accountant to apply a consequent behaviour and to exercise personal judgment. Standards, in our view, can be derived from such fundamental principles, but such standards should primarily be designed to provide organisations and individuals with a framework that allows them to demonstrate and document their compliance with the requirements (which, as a consequence, would also make the standards easier to enforce).

In this sense, for example, objectivity, as one of the fundamental principles, should remain in a Code of Ethics, whilst those provisions that can be regarded as derived from this fundamental principle – in particular the provisions related to independence in appearance – might be considered suitable for standards. On this basis, IESBA may wish to consider distinguishing between the content of the current sections 290 and 291 of the Code on independence for assurance engagements (eg, as ‘independence standards’) and the rest of the Code. We acknowledge that such a distinction would not result in a simplistic separation in order to appropriately adapt the overall conceptual framework approach of the current Part A of the Code.

QUESTION 5

Do you believe that the suggestions as to use of language, as reflected in the Illustrative Examples, are helpful? If not, why not?

We are supportive of the measures to enhance the readability and clarity of the Code summarised in paragraph 23 of the Paper.

We would also like to re-emphasise that any differences between terminology used in common-law and civil-law jurisdictions (eg, 'trust') should be taken into account when improving and/or clarifying the language used in the Code.

Care must be taken, however, to ensure that the intended changes do not fundamentally alter the meaning of existing provisions.

QUESTION 6

Do you consider it is necessary to clarify responsibility in the Code? If so, do you consider that the illustrative approach to responsibility is an appropriate means to enhance the usability and enforceability of the Code? If not, what other approach would you recommend?

Determining who is responsible for which actions may become a standalone project, but should not be addressed in this project.

The Code already requires a firm to have suitable procedures – eg, procedures for communication and consultation concerning ethical issues – but it should refrain from expanding on what is appropriate. When it comes to firm procedures, ISQC 1 is more appropriate.

The existing link between the Code and ISQC 1 requirements should be maintained. We believe that it is sufficient for the wording in the Code to remain consistent with that used in ISQC 1 and for the references to ISQC 1 and ISAs in 290.12 to be maintained. However, we do not consider it necessary for IESBA to introduce any additional complexity in terms of requirement(s) or guidance applicable to firms. We believe that this approach will help to ensure that the overall framework of the Code, ISQC 1 and the ISAs remains clear, understandable and suitable for global application by individual professional accountants and firms of all sizes.

QUESTION 7

Do you find the examples of responsible individuals illustrated in paragraph 33 useful?

We do not find the examples in paragraph 33 particularly useful and believe that they might be confusing for professionals in small and medium-sized practices and sole practitioners.

We would prefer it if the references to ISQC 1 and the ISAs in 290.12 were maintained, although we do not consider it necessary for any additional requirement(s) or guidance applicable to firms to be introduced.

We firmly believe that this approach would reduce the risk of inconsistencies between the different standards and, at the same time, reduce the amount of repetition/duplication. If, however, IESBA is of the opinion that it is necessary to address the issue of responsibility for maintaining independence inside the firms (more clearly), then we suggest that the matter be discussed with the IAASB to see whether it is appropriate to review ISQC 1 in this respect.

QUESTION 8

Do you have any comments on the suggestions for an electronic version of the Code, including which aspects might be particularly helpful in practice?

The electronic version of the Code currently accessible via the IFAC website clearly demonstrates how content can be arranged and presented in ways that are simply not possible in traditional paper/pdf formats – eg, the pop-up boxes for defined terms. The ability to filter out certain sections of the Code (paragraph 38 of the Paper) would also be useful, although care should be taken to ensure that fundamental requirements are not inadvertently hidden from view.

At present, those wishing to access the electronic version of the Code must create an account and log in. We recommend that IESBA reflect on the necessity of this requirement, as it might discourage a large number of potential users from proceeding.

As stated in paragraph 37 of the Paper, there are certain jurisdictions in which it is necessary for a paper/pdf version of the Code to be published in the official journal of the relevant ministry. We believe, therefore, that any electronic version of the Code should always be accompanied by a usable paper/pdf version. Enhanced user-friendliness, although of vital importance, should not come at the expense of implementation.

QUESTION 9

Do you have any comments on the indicative timeline described in Section VIII of this Paper?

We are less concerned by the timeline than by the necessity to get the outcome of this project right. With this in mind, the indicative timeline might be seen as rather ambitious – particularly at a time when major audit reforms are being implemented throughout the EU. It should also be noted that, as yet, little feedback has been received from countries that implemented the Code in 2009.

QUESTION 10

Do you have any other comments on the matters set out in the Consultation Paper?

From the point of view of the reader, the system of blue, bold and/or underlined terms used in the Illustrative Examples is both distracting and confusing. We would recommend that these terms be highlighted in a subtler, less complicated manner.