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Mr. Ken Siong
IESBA Technical Director
International Ethics Standards Board for Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Re: Exposure Draft-Improving the Structure of the Code of Ethics for Professional Accountants - Phase 1

Dear Mr. Siong,

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA or Board) December 2015 Exposure Draft (ED) - Improving the Structure of the Code of Ethics for Professional Accountants - Phase 1.

We are supportive of the restructured Code. However, the proposed changes have highlighted certain areas for improvement that currently exist within the extant Code. We support moving ahead with the restructure project with the understanding that the areas for improvement that will not be addressed as part of the restructured Code will be addressed through separate projects in the future.

We believe the distinction between requirements and application material supports the objective of the ED. The application material will be of great value for users in understanding the Code. In this regard, the diagram is helpful to show what sections are applicable to the different types of professional accountants. Overall, the restructured Code is now more understandable than the extant Code.

The following are our responses to the request for specific comments posed in the Explanatory Memorandum.

Refinements to the Code

1. Do you agree with the proposals, or do you have any suggestions for further improvement to the material in the ED, particularly with regard to:

(a) Understandability, including the usefulness of the Guide to the Code?

As noted in our introductory comments, on the whole, the restructured Code is more understandable than the extant Code. In addition, 'The Guide to the Code' is a useful document.

We have a number of comments where understandability could be improved:

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1: Comments related to the Guide to the Code:

- How the Code is Structured, 4, it states that '*Professional accountants in public practice might also find Part B relevant to their particular circumstances.*'

Part B topic areas are from a professional accountant in business perspective.

The understandability of the restructured Code would be strongest where sections stand on their own. Otherwise, there can be confusion as to what is required as well as what might be relevant. If there are sections from Part B that are relevant to a professional accountant in public practice (Part C), these sections should be replicated in Part C.

- Requirements, 7 and Application Material, 8. In BDO's reply to the Safeguards Exposure Draft, we noted that requirements in Section 120 were then included as part of the application material in Section 300. This would impact the understandability of the restructured Code and we recommend replicating the requirements in Section 300 to allow this section to stand on its own
- Exceptional Circumstances, 12, it states that '*A professional accountant is encouraged to document...*'. The only requirement for documentation in the restructured Code is R402.2. When there is professional judgement, documentation should be a requirement and this should be clearly referenced in the Guide and the Code.
- Additional Non-Authoritative Guidance, 13, use of the wording 'non-authoritative' guidance may not be understood. We would recommend changing the reference to something such as 'Additional Application Guidance'.
- In addition, as was noted in Paragraph 21 of the Explanatory Memorandum, the Guide to the Code provides guidance on how to use the Code. There is a risk that some users may not refer to the Guide; therefore all requirements or application material should be included within the body of the Code. As a specific example, the Guide includes the Exceptional Circumstances section which is only included in the Guide.

2:

In subsection 113 - Professional Competence and Due Care. R113.2 requires that the professional accountant take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision. It would be helpful to add in some examples of reasonable steps within the application material.

3:

In Section 115 - Professional Behavior. 115.1A1 refers to a reasonable and informed third party; however, this is not defined until Section 120. Adding a cross reference in Section 115 would be helpful.

4:

In Section 300, Those Charged with Governance. R300.3 states, '*If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary.*'

300.3A2 repeats most of the wording from the requirement and provides little application direction. It would aid understandability if the wording was more direct, for example:

300.3 A2 A subgroup that the professional accountant may communicate with is:

- The Audit Committee;
- The Chair of the Audit Committee;
- The Chair of the Board.

5:

Section 320 - Professional Appointment

Under the extant Code, 210.1 states '*...a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles*'.

In addition, 210.6 states '*Before accepting a specific engagement, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles*'.

In the restructured Code, R320.3 states '*A professional accountant shall apply the conceptual framework set out in Section 120 to a professional appointment*'.

The wording in the restructured Code is not clear on what has to be done for client or engagement acceptance. We would recommend that the steps within the conceptual framework (identify, evaluate and address) be used within each of the sub-headings and then the information required to be included in the restructured Code could be added within the appropriate sub-heading.

6:

Section 321 - Second Opinions

In the extant Code, 230.1, an example is provided. This example is not carried through to the restructured Code, Section 321. It would be helpful if the example were added to Section 321.

7.

Section 340 - Gifts and Hospitality

Section 420 - Gifts and Hospitality

In the restructured Code, Section 420 includes the prohibition if the gifts or hospitality are not trivial or inconsequential. Section 340 includes useful information on how to assess whether something is trivial or inconsequential. It would be helpful to include this information within Section 420 (to allow the independence section to stand on its own) or at a minimum, reference back to Section 340.

8.

Glossary

The glossary should stand on its own. We support including certain definitions within the body of the restructured Code and referencing this in the glossary; however, the definition should also be in the glossary. For example, acceptable level is defined in the glossary and referenced to Section 120.6A1.

Items within the glossary that are only referenced to where to find the information in the Code are:

- Fundamental principles;
- Safeguards;
- Threats.

In addition, for Network Firm, the glossary provides some information and refers the reader to Subsection 401 for further information. For public interest entities (PIEs), the glossary provides the definition and refers the reader to paragraph 400.6 for information on other entities that might be considered PIEs.

In summary, the glossary should contain all the information from the restructured Code for the defined terms.

(b) The clarity of the relationship between requirements and application material?

We agree that the proposals add clarity of the relationship between requirements and application material in the restructured Code other than for Section 310 - Conflicts of Interest, as described below.

Inconsistency within the section

There is an inconsistency in the wording of R310.7, Conflict identification and R310.9, Network Firms.

- R310.7 refers to the professional accountant taking reasonable steps, but the application material does not.
- R310.9 does not refer to reasonable steps, but the application material does.

The language from the requirement should be carried through to the application material.

Conflict Identification

R310.7 requires that the professional accountant take reasonable steps to identify circumstances that might create a conflict of interest.

The application material 310.7A1 states that professional accountants are assisted by having an effective conflict identification process in place.

The concerns that we have identified are:

- There is no link that 'reasonable steps' translates to 'a process'.
- There is no guidance on what makes a process effective.
- The guidance refers to factors that impact the process, but there is no guidance on how to apply this.
- It is not clear what the impacts to a firm are if they do not have an effective process.

Clarification in all these areas is required.

Network firms

R310.9 states '*... the professional accountant shall consider conflicts of interest that the accountant has reason to believe might exist or arise due to interests and relationships of a network firm*'.

310.9 A1 refers to reasonable steps, yet there is no reference to reasonable steps in R310.9. In addition, it only includes factors that will impact the reasonable steps. Examples of what might be a reasonable step would be helpful.

Section 310.2 states '*A conflict of interest creates a threat to objectivity and might create threats to the other fundamental principles*'. The headings in this section are:

- Conflict identification
- Network firms
- Applying the conceptual framework to conflicts of interest
- Disclosure and consent
- Confidentiality

We believe it would be clearer to use the ethical conflict resolution process (100.20 of the extant Code) for each category and then the information required to be included in the restructured Code could be added within the appropriate step within the ethical conflict resolution process. This would add clarity between the requirements and application material within this section of the restructured Code.

Inconsistency within the restructured Code

There is an inconsistency in the restructured Code. As mentioned in BDO's reply to the Safeguards Exposure Draft, in Section 300, requirements from Section 120 are not repeated as requirements; however, in some cases, they were included as application material. In Section 310, requirements from Subsection 114, Confidentiality, are repeated as requirements. To achieve consistency, we recommend replicating the requirements in Section 300 rather than removing the replicated requirement in Section 310.

Addressing these items would improve the clarity of the relationship between requirements and application material for Section 310.

Formatting suggestion

It would be helpful to highlight the requirements in each section of the restructured Code. One example would be to include **grey shading** for all requirements.

(c) The clarity of the principles basis of the Code supported by specific requirements?

We agree that the proposals add clarity of the principles basis of the restructured Code supported by specific requirements.

(d) The clarity of the responsibility of individual accountants and firms for compliance with requirements of the Code in particular circumstances?

Section 100.2 states '*The fundamental principles of professional ethics set out in the Code establish the standard of behavior expected of a professional accountant.*' Given that the Code (extant and restructured) is a standard, the reference to behavior should be a requirement rather than an expectation.

Other than as noted above, we agree that the clarity of responsibility of individual accountants and firms is appropriate. Where applicable, there should also be consistency with ISQC 1.

(e) The clarity of language?

Within section 111 - 115, which sets out the requirements and application material of the fundamental principles, as well as in many other sections of the restructured Code, the wording in each section talks about the fundamental principle 'which requires an accountant...' All other references refer to professional accountant. Accountant is not a defined term. It is also not clear if there is a difference between a 'public accountant' and an 'accountant'. For clarity, one term should be chosen, defined and used consistently throughout the restructured Code.

We appreciate that the wording in the restructured Code has simplified the language used in many instances. This should improve understandability of the restructured Code.

(f) The navigability of the Code, including:

- (i) Numbering and layout of the sections;**
- (ii) Suggestions for future electronic enhancements; and**
- (iii) Suggestions for future tools?**

- We agree that the proposals improve the navigability of the restructured Code through the numbering and layout of the sections.
- We do not have any suggestions for future electronic enhancements.
- We would appreciate if in future, an app could be developed to allow the restructured Code to be used easily on a smartphone or tablet.

(g) The enforceability of the Code?

We agree that the proposals improve the enforceability of the restructured Code. However, the responsibility for public accountants to act in the public interest should always be the key focus of the Code (extant and restructured).

2. Do you believe the restructuring will enhance the adoption of the Code?

The restructured Code is easier to understand and, therefore, we believe this will lead to enhanced adoption of the restructured Code.

3. Do you believe that the restructuring has changed the meaning of the Code with respect to any particular provisions? If so, please explain why and suggest alternative wording.

We believe the restructuring has changed the meaning of the extant Code, as follows:

1. Mergers and acquisitions section, 290.33, in the extant Code, refers to a merger by an audit client and the impact on the firm. There is no reference to network firm. Based on the definition of audit and related entities, the related entity may or may not be considered part of the audit. Network firms would only be applicable if they were performing services for a related entity that was considered to be part of the audit.

Subsection 403 - Mergers and Acquisitions, 403.1, in the restructured Code, refers to a threat that may be created by previous or current interests or relationships between a firm or network firm and such a related entity. The reference to network firm could be confusing as it is no longer clear if (1) network firms are always to be considered or (2) only when the related party was considered to be part of the audit.

- If the intent is that network firms should always be considered, we believe this is a change in the meaning of the Code.
- If the intent was to highlight that sometimes network firms need to be considered, we believe that additional wording as to when a network firm should be considered should be included.

2. Loans and Guarantees 290.122 in the extant Code states, *'If a firm or a member of the audit team, or a member of that individual's immediate family, has deposits or a brokerage account with an audit client that is a bank, broker or similar institution, a threat to independence is not created if the deposit or account is held under normal commercial terms.'*

The wording in the restructured Code is, R511.7, *'A firm, a network firm, an audit team member, or that individual's immediate family members shall not have deposits or a brokerage account with an audit client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.'*

Under the extant Code, since a threat is not created if the deposit or account is held under normal commercial terms, then if the deposit or account is held under commercial terms that are not normal, a threat would be created. However, under the restructured Code, it is a prohibition.

Other Matters

4. Do you have any comments on the clarity and appropriateness of the term “audit” continuing to include “review” for the purposes of the independence standards?

We have no comments. This is consistent with the extant Code and we believe there is no reason to change the current practice.

5. Do you have any comments on the clarity and appropriateness of the restructured material in the way that it distinguishes firms and network firms?

We have three comments with respect to firms and network firms:

- 1) See response to 1 (b) above
- 2) See response to 3 above
- 3) C1 - R401.2 states, '*A network firm shall be independent of the audit clients of the other firms within the network where C1 specifically requires such independence*'. For clarity and understandability, it would be helpful to cross reference the specific sections in C1 where independence is required for network firms.

Title

6. Is the proposed title for the restructured Code appropriate?

We do not agree with the proposed title for the restructured Code. We do not see an issue with the current title and see no reason to change.

We appreciate the opportunity to comment on the Exposure Draft and hope that our comments and suggestions will be helpful to you in your deliberations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Wayne Kolins
Global Head of Audit and Accounting