

IESBA Technical Director
Mr. Ken Siong

By e-mail: kensiong@ethicsboard.org

14 April 2016

Re: FSR – danske revisorer comments on the IESBA Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1

Dear Mr. Siong

The Ethics Committee of FSR - danske revisorer is pleased to comment on the IESBA Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1.

In general, we are positive regarding the objectives of the project.

Our general comments are listed below.

Standards, principles and enforceability

Over time, enforceability has become a benchmark to define a standard. Although the conceptual framework remains a key element of the Code, we fear that this restructuring may be seen as a shift to a more rules-based code, mainly due to enforceability reasons, as too much focus is being put on compliance rather than application.

We believe that the fundamental principles in the Code primarily address mind-set and behaviour. As such, these principles do not fit into a legalistic concept of compliance and enforcement. Only some concepts derived from these fundamental principles, such as independence in appearance as one aspect of objectivity, may be subject to compliance and enforcement measures. Without losing sight of the importance of enforceability, the main concern of the Code should remain to address the mind-set and behaviour instead of promoting mere compliance with a set of provisions.

Building block approach

We believe that it would be useful to distinguish between provisions applicable to PIEs and non-PIEs in the proposed Parts B and C of the Code. This distinction could help make the provisions of the Code more understandable to SMPs. Despite the efforts made, we think there is still room for improvement to make clear to SMPs what provisions of the Code are applicable to them or not.

We favour a scalable 'building block' approach – a core block for all professional accountants and perhaps other professionals employed in accounting firms and complementing blocks dealing with specificities. This approach would also help reduce the length of the Code.

FSR – danske revisorer
Kronprinsessegade 8
DK - 1306 København K

Telefon +45 3393 9191
fsr@fsr.dk
www.fsr.dk

CVR. 55 09 72 16
Danske Bank
Reg. 4183
Konto nr. 2500102295

Link to ISQC and ISAs

Regarding the allocation of responsibilities between firms and individuals, we welcome the approach of maintaining the existing link between the Code, ISQC 1 and ISAs and are satisfied with the approach taken by IESBA in deferring further consideration on this matter until the outcome of the IAASB's project on ISQC 1.

Side 2

This matter should be kept in ISQC 1 and, although firms and professional accountants each have responsibilities to comply with independence requirements, the Code should address them without prescribing the specific responsibility of individuals.

Network Firms

Regarding the reference to firms from network firms, the proposed restructured Code introduces a paradigm shift as it amends the previous general rule by clearly distinguishing between the two concepts and therefore thorough analysis is needed in order to evaluate the appropriateness of such a distinction on a case-by-case basis. We refer to our detailed comments in the appendix for this matter.

The Magnitude of the Code

We are concerned that the resulting clarified Code could be a very large one. There seems to be much duplication along the way as if it was an ambition that a "new reader" should be able to start a reading anywhere in the Code. There are many repetitions and redundancies, and they should be avoided. To serve a "lean" purpose, cross references and the glossary could be of more use.

Other professionals in accounting firms

Furthermore, the absence of addressing issues of other professionals, e.g. tax advisors and management consultants, employed in accounting firms is a major weakness. It seems to us a great paradox to dedicate so much attention to professional accountants in business, and almost no attention to other employees in accounting firms. The latter are no doubt of greater importance and a potential far greater threat to the ethical status of the profession in the eyes of the well-informed third party, e.g. the many regulators worldwide.

Reach out Activities – Addressing the Declining Status of the Code

As for the adoption of the Code, we strongly suggest reach out activities. The status of the Code has dramatically declined in the EU: In the EU 2006 Directive on statutory audits, the preamble pointed to the Code as a likely source of future ethical standards in the EU. Now, the Code seems to have lost its status altogether, at least in the eyes of the EU-Commission.

We would prefer the Code to regain its former strength as a common ground internationally. This would imply greater certainty for businesses, regulators and audit firms when making decisions involving ethical issues. We would be happy to see things reversed; but to do this, consensus between the major regulators and IESBA is a prerequisite.

Implementation and Translation

Finally, we would like to stress the need to allow adequate time for a due process to translate and implement the new restructured Code. In our opinion, this process calls for at least one year. Therefore, an effective date before 1.January 2018 would seem inappropriate.

Side 3

We refer to our specific comments below.

Kind regards
Lars Kiertzner
Chief Consultant, State Authorized Public Accountant
FSR – danske revisorer

SPECIFIC COMMENTS

Side 4

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?

We find the guide very useful.

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

We find the distinction between requirements and application material a major step forward.

On the other hand, there seems to be too much copy paste or duplication. This could lead to difficulties by interpretation.

By an example: All the fundamental principles of section 110 could be stated in one overall requirement (as listed in the introduction paragraph 110.1 that is basically copy pasted for each individual principle to 111.1, 112.1, 113.1, 114.1, and 115.1) followed by specific requirements and application material for the five principles.

And by another example: The section 120 on the conceptual framework could be restricted to the requirements to limit the massive copy paste later in the specifics of the application for professional accountants in practice in section 300.

For further clarity, it may be preferable to list all the requirements of a section followed by the application paragraphs. This would be more in line with the presentation in ISA and therefore be in line with an established and already widely accepted format.

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

As previously mentioned in our general comments, we fear that this restructuring may be a shift to a rules-based code. Any standard should clearly derive from the fundamental principles enshrined in the Code and not the other way around.

Sometimes the impression is given that professional accountants should firstly comply with the detailed and specific requirements and only afterwards focus on the underlying principle.

A further weakness is the absence of addressing issues of other professionals, e.g. tax advisors and management consultants, employed in accounting firms. It seems to us a great paradox that much attention is given to professional accountants in business and almost none to other employees in accounting firms.

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

Regarding the allocation of responsibilities between firms and individuals, we welcome the approach of maintaining the existing link between the Code, ISQC 1 and ISAs and are satisfied with the approach taken by IESBA in deferring further consideration on this matter until the outcome of the IAASB's project on ISQC 1. This matter should be in the boundaries of ISQC 1. The independence requirements in the Code should be addressed without prescribing the specific responsibility of individuals within the firm for actions related to independence.

(e) The clarity of language?

(f) The navigability of the Code, including:

- (i) Numbering and layout of the sections;
We are of the view that the new numbering convention could be confusing as there are three types of numbering according to the 'nature' of the provision, i.e., for introduction, requirements and application material.
- (ii) Suggestions for future electronic enhancements; and
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.
- (iii) Suggestions for future tools?

(g) The enforceability of the Code?

Over time, enforceability has become a benchmark to define a standard. As previously mentioned we fear that the restructuring may result in a shift to a more rules-based Code, mainly due to enforceability reasons, as too much focus is on compliance with rather than application of the Code. We are of the view that the main concern of the Code should be to address the mind-set and behaviour of the professional accountant instead of promoting mere compliance with a set of provisions.

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

We do not believe that the restructuring of the Code as proposed will bring an increased likelihood of adoption and implementation of the Code into laws and regulations. The legislative and regulatory frameworks throughout the world are quite different.

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.

No doubt, the status of the Code has declined in the EU: In the 2006 Directive on statutory audits, the preamble pointed to the Code as a likely source of future ethical standards in the EU. This possibility has in no way materialized in the 2014 Directive and in the new regulation on audits of PIEs – quite the opposite: The Code seems to have lost its status altogether, at least in the eyes of the EU-Commission.

Reach out activities will therefore be central to the outcome of whether the Code might return to its former strength or not.

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.

Regarding the reference to firms from network firms, the proposed restructured Code introduces a paradigm shift as it amends the previous general rule by clearly distinguishing between the two concepts and therefore thorough analysis is needed in order to evaluate the appropriateness of such a distinction on a case-by-case basis.

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?

No.

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?

Title

Side 7

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

The proposed title is cumbersome, and we would not know how to translate "The International Code of Ethics Standards for Professional Accountants" properly. A proposal: "The International Code of Ethics: Principles, Framework, Standards and Application". Another possibility will be to stick to the short form: "The International Code of Ethics."

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

(a) Small and Medium Practices (SMPs) – The IESBA invites comments regarding the impact of the proposed changes for SMPs.

We believe that it would be very useful to distinguish between provisions applicable to PIEs and non-PIEs in the proposed Parts B and C of the Code. This distinction could help make the provisions of the Code more understandable to SMPs. We favour a scalable 'building block' approach – a core block for all professional accountants and perhaps other professionals employed in accounting firms, and complementing blocks dealing with specificities. This approach would also help to reduce the length of the Code. This core block should contain the overarching matters such as the fundamental principles and further blocks would contain more detailed requirements.

(b) *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.

(c) *Translations*—Recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

We would like to stress the need to allow adequate time for a due process to translate and implement the new restructured Code. In our opinion, this process calls for at least one year. Therefore an effective date before 1. January 2018 would seem inappropriate.