

18 April 2016

Mr K Siong
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International Ethics Standards Board for Accountants (IESBA)
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New York, NY 10017, USA
Submitted electronically to kensiong@ethicsboard.org

Dear Ken

Comments on the Exposure Draft *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1*

The Independent Regulatory Board for Auditors (IRBA) is the audit regulator and national auditing and ethics standard-setter in South Africa. Its statutory Committee for Auditor Ethics (CFAE) is responsible for prescribing standards of professional competence, ethics and conduct for registered auditors. One of the IRBA's statutory objectives is to protect the public by regulating audits performed by registered auditors, thereby promoting investment and employment in South Africa.

The IRBA adopted Parts A and B of the International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants* (the Code). This was prescribed in 2010 as the *Code of Professional Conduct for Registered Auditors* (the IRBA Code) in South Africa, with certain additional national requirements. The IRBA Code, with its *Rules Regarding Improper Conduct*, provides the basis for disciplinary action against registered auditors. As the IESBA's exposure draft on the proposed revisions pertaining to the structure of the Code could result in possible amendments to Parts A and B, the IRBA has particular interest in the process.

In preparing this comment letter, the IRBA, through its CFAE, hosted a seminar for users and practitioners (from both the public and private sector) to consider the exposure draft and has drawn on feedback from the seminar in drafting these comments.

We appreciate this opportunity to comment on the exposure draft and our comments are presented under the following sections:

- A. Opening Comments;
- B. Request for Specific Comments and Responses;
- C. Request for General Comments; and
- D. Annexure A: Paragraphs that have changed in meaning.

We have also enclosed a copy of the IRBA comment letter on the IESBA Safeguards project, which includes comments relevant to the Structure project.

If you have any questions or would like to discuss any specific comments, please contact:

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Yours faithfully

Signed electronically

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Encl.

IRBA comment letter to the IESBA dated 21 March 2016, on the Safeguards project

A. Opening Comments

- 1.1. The IRBA supports the initiatives of the IESBA to improve understandability, enforceability and usability of the IESBA Code. This includes a Code that is effectively implemented and consistently applied.
- 1.2. As a regulator of registered auditors, we have a strong interest in the enforceability of the Code. Likewise, we support initiatives that create an enabling environment for registered auditors to apply the Code. We believe that the Code is imperative in protecting the public interest, thus support such initiatives that promote ease in understanding the Code. Furthermore, the lack of enforceability of the Code, leads to sluggishness in the adoption of the Code in new jurisdictions.
- 1.3. While this exposure draft on the Code has been drafted in the context of professional accountants, our responses are provided in the context of registered auditors who perform audits, reviews and provide other assurance services.
- 1.4. We believe that this exposure draft is an improvement on the extant Code. However, we believe that additional work outside the scope of this Structure Project may be needed to achieve the full objectives of this exposure draft. To facilitate understandability and usability of the Code, more specific requirements are needed in the different sections of the Code and clarity to certain statements.
- 1.5. Our comment letter also includes some suggestions in Appendix A that may fall outside of the scope of this exposure draft, but which the IESBA may consider when deciding on future projects.
- 1.6. In light of the multiple references to the conceptual framework in the restructured Code, especially in the requirements, we stress that sufficient clarity is required in the Safeguards Project about the conceptual framework to make the Code understandable and enforceable.
- 1.7. The IESBA may have to consider including a public sector perspective in the application material in the scope of the Code. This would be similar to the application material in the various International Auditing and Assurance Standards Board's (IAASB) International Standards on Auditing (ISAs) relating to "Considerations Specific to Public Sector Entities".
- 1.8. The IRBA comment letter on the IESBA Safeguards project (as attached) should be considered, especially relating to comments on the conceptual framework in this comment letter.

B. Request for Specific Comments and Responses

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?

1.1. This restructured Code is an improvement, especially in the understandability of the Code. We appreciate the efforts to increase the consistent application, effective implementation and enforceability.

1.2. The following amendments promote understandability:

- The differentiation between requirements and application material;
- The introduction of the Guide to the Code, as it provides clarity that was missing in the extant Code. The helpful information contained in the Guide will allow the user to properly apply the Code and have a proper understanding of it; and
- The diagrammatic representation that shows how various parts of the Code fit together.

1.3. The conceptual framework is the bedrock of the Code and has been referred to numerous times. However, we question if the conceptual framework has been highlighted sufficiently and given the prominence it deserves. We suggest a diagrammatic representation of the conceptual framework and fundamental principles in the Guide to enhance the clarity of the Code rather than the use of the repeated header on each page which we do not find particularly helpful.

1.4. We point out the following:

- We have noted that the “Ethical Conflict Resolution” section from the extant Code (Para. 100.19-100.24) has been moved to Guide 11-13. It should be retained in the Code rather than in the Guide. The Guide should only emphasise information that is in the Code and not introduce new material as the intention of the Guide is to help with navigability and not introduce new requirements or application material.
- With respect to the diagram that illustrates how the different parts of the Code fit together, we suggest the inclusion of the following standard issued by the IAASB: *International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements (ISQC 1)* as it contains ethical requirements that an audit firm will need to consider. It is imperative for a professional accountant to read the Code and ISQC1 for all ethical requirements. This is in line with para 400.7 of the restructured Code.

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

1.5. We support the new approach distinguishing between requirements (R) and application material (A), as it is in keeping with other documents that have been issued by the

International Standard Setting Boards of IFAC. We raise the following points:

Requirements are too broad

- 1.6. We believe that certain requirements have been written too broadly. The IESBA may want to consider writing some requirements in a more subject matter specific manner. Several requirements state: “The professional accountant shall apply the conceptual framework set out in Section 120...”¹
- 1.7. The link between the requirements and the application material should be clear. In many places, the application material paragraphs give more context, while the requirement is simply a repetition of the conceptual framework. Section 330 is a good example where the requirement (R330.3) refers to the conceptual framework while the application material gives context.
- 1.8. We note that statements referring to actions by professional accountants in application material have been drafted to make it clear that there is no intention to create additional requirements. However, application material may trigger some consideration of a requirement. This needs to be made clear when defining the application material. An example of this is the “Application of the Conceptual Framework for Professional Accountants in Public Practice” (Application material that follows R300.2).

Reference to the ISAs

- 1.9. The Guide to the Code should explain how requirements and application material are to be used. We note that the ISAs include a statement explaining the relationship between requirements and application material. An example of this is an extract from ISQC1:

ISQC1 paragraph 8 states: “When necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover; and
- Include examples of policies and procedures that may be appropriate in the circumstance.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISQC1.”

Status of the Requirements and Application Material

- 1.10. We note that the definition and status of requirements and application material have not been explained clearly. We believe that this will help in the future, especially when enforcing the Code.
- 1.11. Failure to provide a proper definition and status of requirements and application material may lead to various interpretations of the Code.
- 1.12. As per the Explanatory Memorandum of the ED, there are three types of application material, namely:
 - Guidance on what a requirement means or is intended to cover;

¹ R120.3, R310.6, R320.3, R321.4, R330.3, R340.3 and R350.3

- Material laying out matters for the professional accountant’s consideration in applying the requirements; and
- Examples of procedures, including safeguards, which may be appropriate in the context of the engagement or assignment.

We would question if these three have the same status and should be treated the same.

1.13. A proposed definition and status of requirements and application material will help with inconsistencies in the application thereof. We suggest the following definitions and status of requirements and application material, based on the explanatory memorandum, to be included in the Guide to the Code:

Proposed Definition:

R (Requirement)	<p>Requirements create a binding obligation on firms and professional accountants to act.</p> <p>If a firm or a professional accountant contravenes such a requirement, they may be subject to enforcement action and action for damages by a professional body or regulator</p> <p>Requirements usually contain the words such as “shall” or “must”.</p>
A (Application Material)	<p>Application material does not create a binding obligation on the professional accountant or firm to act.</p> <p>Application material has been drafted to make it clear that there is no intention to create additional requirements.</p> <p>Application material in the Code comprises:</p> <ul style="list-style-type: none"> • Guidance on what a requirement means or is intended to address; • Material laying out matters for the professional accountant’s consideration in applying the requirements; and • Examples of procedures, including safeguards, which may be appropriate in the context of the engagement or assignment. <p>Application material, although not binding in its own right, always relates to a requirement, which is binding.</p> <p>Application material usually contains the words such as “may” or “may consider”.</p>

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

1.14. We agree that the Code should have a principles basis with specific requirements. However, for the Code to be usable and clear, those specific requirements need to be

defined.

- 1.15. The conceptual framework is the foundation of the Code. Accordingly, many requirements reference the conceptual framework. Thus the clarity of the Code is dependent on the proposed amendments to Safeguards in relation to the conceptual framework.
- 1.16. Additionally, we note that requirements often refer to the conceptual framework but seldom to the fundamental principles. An example of this is R340.3 which requires the application of the conceptual framework when accepting offers of gift and hospitality but does not require the professional accountant to comply with the fundamental principles. Additionally, the repeated header refers only to the conceptual framework but does not remind the reader that the fundamental principles apply in all circumstances as well.
- 1.17. We note that certain paragraphs in the extant Code refer to specific fundamental principles and in the restructured Code the equivalent paragraphs refer more broadly to the “fundamental principles”. It would be helpful to the reader to be more specific on these. An example of this is R320.3 which requires the professional accountant to comply with the conceptual framework and the fundamental principles, while the extant Code 210.1 specifically refers to integrity and professional behaviour.

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

- 1.18. We note that reference to professional accountants in public practice refers to both the individual and the firm. While this is understood by readers who are familiar with the Code, new readers may not have the correct understanding.
- 1.19. “Professional accountant in public practice” is a term that is widely used and readers may not always refer to the glossary for definitions. Thus, we suggest this definition be explained in the Guide of the Code to allow for better understanding.
- 1.20. Furthermore, the responsibility between the firm and a specific individual in the firm made in ISQC1 should be incorporated into the Code. Where possible, all ethical requirements or considerations should be incorporated into the Code, rather than in IAASB pronouncements.

(e) The clarity of language?

- 1.21. We have noted the following which can be improved:
- There are certain words or phrases in this exposure draft that may be considered unclear and need to be reconsidered, e.g. “so significant”, “deters”, “encourages”, “otherwise advise”, “many variations”, and “recently”.
- 1.22. Certain superfluous and complex words and phrases still remain in the Code. An example with our proposed amendment is:
- Guide 9: Where application material includes ~~lists of~~ examples, these lists are not intended to be read as ~~exhaustive~~ **complete** lists of all possibilities or circumstances that might arise.

- 1.23. Certain paragraphs still need to be amended to the active voice. An example”:
- Guide 8; “While such application material does not of itself impose a requirement...
- 1.24. The phrase “laws and regulations” is repeated in the Code. However, there are certain legal instruments that may impose ethical requirements but have not been issued as a law or regulation. We suggest that this phrase be replaced with “[laws and other binding legal prescripts.](#)”
- 1.25. We note that there is a word missing in R120.7.
- R120.7 “If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating [them](#) or reducing them to an acceptable level.”
- 1.26. We note that there are certain phrases that are used but not defined, namely, “professional judgement” and “facts and circumstances”, and we have made suggestions in Appendix A.

(f) The navigability of the Code, including:

(i) Numbering and layout of the sections;

- 1.27. The introduction of the diagram detailing how the various parts of the Code fit together helps the user to understand the layout.
- 1.28. The numbering format is simple, clear and similar to other standards and codes that may be familiar to the user.

(ii) Suggestions for future electronic enhancements; and

- 1.29. We have the following suggestions when introducing a Web-based Code:
- A refined search function;
 - Hyperlinks to the definitions;
 - Hovering over a term for the definition; and
 - A cross-reference to other sections.
- 1.30. We would be cautious in recommending the use of the Web-based Code to South African users as it will not include our local amendments. Other jurisdictions may have similar concerns.
- 1.31. We suggest that the proposed future tools will be of more benefit to a broader set of users in understanding and applying the Code than electronic enhancements to the Web-based Code that, whilst useful, will only benefit users of the Web-based Code.

(iii) Suggestions for future tools?

- 1.32. We welcome the IESBA proposal to introduce tools to assist users with the restructured Code. We support the introduction of the matrix and a summary of documentation requirements. We suggest the inclusion of a template to outline a

thought process for a user of the Code to identify the threat/s to independence, more diagrams, interactive questions, and a matrix showing the Code categorised by the “different stages of an audit.”

- 1.33. We believe that these tools will go a long way in helping registered auditors, especially small and medium practices (SMPs), in understanding and applying the Code.

(g) The enforceability of the Code?

- 1.34. The proposed restructure should make it simpler to raise findings/charges due to the differentiation between requirements and application material. However, due to the numerous references to the conceptual framework in the restructured Code, especially in the requirements, enforceability will be dependent on the proposed amendments in the Safeguards Project.
- 1.35. There are certain phrases or concepts in the Safeguards exposure draft that are unclear and need to be reconsidered, e.g. “reasonable informed third party”, “acceptable level”, etc. The use of such phrases/concepts would make uniform application very difficult, and create the likelihood of unsuccessful enforceability. In light of the IESBA’s commitment to clarity, we ask it to reconsider such phrases/concepts.
- 1.36. We feel that the proposed amendments in the Safeguards exposure draft are insufficient in bringing the required clarity and allowing for enforceability in the future.

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

- 2.1. The differentiation between requirements and application material sets out clear expectations. However, this will be enhanced if appropriate definitions are included.
- 2.2. As this is a similar model to the ISAs, registered auditors will be familiar with the layout and concepts, thus also making it familiar to countries that have adopted the ISAs.
- 2.3. However, we note that certain countries have expressed that jurisdictional legislation independence requirements have surpassed the Code requirements, making that a reason not to adopt the Code. Countries that have expressed this will not adopt the Code as the restructure project has not addressed the independence requirements.

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.

- 3.1. We welcome the change in language to the restructured Code and the efforts of the IESBA to make the Code simpler and more understandable.
- 3.2. On review of the exposure draft, we identified certain paragraphs that we would have classified as “requirements” in the extant Code but have been classified as “application material” in the restructured Code.
- 3.3. We note that:

- Certain paragraphs with the words “Shall not” have been re-written in the Code in the positive. The restructured Code should allow for prohibitions in line with the extant Code; and
- “Shall consider” has been re-written as application material rather than a requirement. We note that in the ISAs, “shall consider” is a phrase that is used as a requirement. Thus, we disagree with the IESBA’s approach to re-write these paragraphs as application material.

3.4. We have included a list of paragraphs we would like to bring to your attention in Annexure A that require further consideration and explanation.

3.5. Items highlighted in Annexure A have been categorised as follows:

- Restructure that has resulted in a change in meaning;
- Restructure that has resulted in requirements (or prohibitions) being classified as application material; and
- Restructure that has resulted in a change of tone in the Code.

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?

4.1. We agree that the term audit should refer to audit and review. All independence requirements that are applicable to an audit engagement should be equally applicable to a review engagement. This is in keeping with the extant Code.

4.2. We agree that the repetition of “audit and review” would not be helpful to readers that have an understanding of the Code. However, first-time readers or readers not familiar with the Code may erroneously not read audit in the correct context.

4.3. Additionally, as the term “audit” is widely used and understood, the reader may not refer to the glossary for a definition.

4.4. Thus we suggest that the extant paragraph 290.3 be retained in the restructured Code and moved to the Guide of the Code to allow for better understandability.

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?

5.1. We note that the differentiation between firm and network firm will make the Code clearer and easier to understand.

5.2. The IESBA may want to consider the inclusion of network firm as it appears to have been omitted in the two paragraphs below :

- **R400.11** As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in C1 include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm’s (network firm’s) independence from the client, the audit team shall

include that related entity when identifying and evaluating threats to independence and applying appropriate safeguards; and

- **R403.2** It might not be reasonable to end an interest or relationship by the effective date of the merger or acquisition. This might be because the firm (network firm) provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

Title

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

- 6.1. Reference is made to both the Code and the Standard in the restructured exposure draft. The use of the term “code” and “standard” has caused confusion as we are uncertain of the intended difference between these two.
- 6.2. Additionally, it is unclear why the independence sections C1 and C2 are referred to as “Standards”.
- 6.3. While we do not have a preference for one over the other, we would prefer it if the IESBA decided on using only one of these terms.
- 6.4. If the IESBA decides to use both Code and Standard in the body of the document, it would be beneficial if it defines these terms.

C. Request for General Comments

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

- 7.1. The biggest barrier faced by SMPs in complying fully with the Code is in understanding its requirements. Some users, especially those registered auditors whose first language is not English, report a difficulty in understanding the Code because of its complexity of language and construction.
- 7.2. The introduction of the Guide to the Code and the differentiation between requirements and application material help make the Code clearer, easier to understand and will hopefully facilitate implementation of the Code.
- 7.3. The introduction of requirements alongside a principle-based Code will be welcomed by SMPs as this will still allow for scalability in the different sized practices.
- 7.4. The lack of clarity on some important concepts in the extant Code as well as the restructured Code would make it especially difficult for SMPs as additional time and resources would be required for them to comply.

8. (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.

- 8.1. In environments where the ISAs and the Code have been adopted recently, the need for clarity is self-evident. The limited experience of practitioners, standard-setters and regulators with the application of the Code makes the structure and enforceability of the Code paramount. With this in mind, we believe that clarifying certain statements would be very helpful, e.g. ‘reasonable and informed third party’.

9. (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.

- 9.1. Throughout this letter we have highlighted the terminology that is problematic when it comes to application and could pose difficulties in translation. This is particularly true when words and phrases of a technical nature are used.

Annexure A

D: Paragraphs that have changed in meaning

There are certain examples that we would like to bring to your attention.

We have highlighted words in yellow to highlight the change.

Text that is in red and underlined are proposed amendments we have suggested.

This annexure is divided into:

1. Restructure that has resulted in a change in meaning;
2. Restructure that has resulted in requirements (or prohibitions) being classified as application material; and
3. Restructure that has resulted in a change of tone in the Code.

1. Restructure that has resulted in a change in meaning

	Extant Code	Restructured Code	Comment
1	<i>Extract of S100.5</i> A professional accountant shall comply with the following fundamental principles: (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not discloses any such information to third parties without proper and specific authority, unless there is a legal or	<i>Extract of S110.1</i> There are five fundamental principles of ethics for professional accountants: (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.	The definition of confidentiality in the Code has been amended. The prohibition on disclosure has been removed. The prohibitions on improper use have been removed. The original definition must be

	Extant Code	Restructured Code	Comment
	professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.		reinstated, as it is commonly applied in disciplinary matters.
2	<p>100.19 A professional accountant may be required to resolve a conflict in complying with the fundamental principles.</p> <p>100.20 When initiating either a formal or informal conflict resolution process, the following factors, either individually or together with other factors, may be relevant to the resolution process:</p> <p>(a) Relevant facts; (b) Ethical issues involved; (c) Fundamental principles related to the matter in question; (d) Established internal procedures; and (e) Alternative courses of action.</p> <p>Having considered the relevant factors, a professional accountant shall determine the appropriate course of action, weighing the consequences of each possible course of action. If the matter remains unresolved, the professional accountant may wish to consult with other appropriate persons within the firm or employing organization for help in obtaining resolution.</p> <p>100.21 Where a matter involves a conflict with, or within, an</p>	<p><i>Exceptional Circumstances</i></p> <p>10. A professional accountant might encounter circumstances in which the result of applying a specific requirement of the Code would be disproportionate or not be in the public interest. In those circumstances, the accountant is encouraged to consult with a professional body or a regulator.</p> <p>11. A professional accountant might face a situation where compliance with one fundamental principle conflicts with one or more other fundamental principles. In those situations, the accountant is encouraged to consult. Appropriate parties for consultation might include one or more of the following:</p> <ul style="list-style-type: none"> • Others within the firm or employing organization. • Those charged with governance. • A professional body. • A regulator. • Legal counsel. <p>The accountant is usually able to obtain guidance on ethical issues without breaching the fundamental principle of confidentiality. However, such guidance does not relieve the</p>	<p>We note that ethical conflict resolution has been included in the Guide rather than in the Code. We note that this move may be problematic in the future as the status of the Guide is unclear.</p> <p>We further note that the useful information contained in 100.20 (a)-(e) has been deleted.</p> <p>We see no good reason for the structure project to be making this change and should be reinstated to the Code.</p>

	Extant Code	Restructured Code	Comment
	<p>organization, a professional accountant shall determine whether to consult with those charged with governance of the organization, such as the board of directors or the audit committee.</p> <p>100.22</p> <p>It may be in the best interests of the professional accountant to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue.</p> <p>100.23</p> <p>If a significant conflict cannot be resolved, a professional accountant may consider obtaining professional advice from the relevant professional body or from legal advisors. The professional accountant generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege. Instances in which the professional accountant may consider obtaining legal advice vary. For example, a professional accountant may have encountered a fraud, the reporting of which could breach the professional accountant's responsibility to respect confidentiality. The professional accountant may consider obtaining legal advice in that instance to determine whether there is a requirement to report.</p> <p>100.24</p>	<p>accountant from the responsibility to apply professional judgment to resolve the conflict or, if necessary, disassociate from the matter creating the conflict.</p> <p>12. 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.</p>	

	Extant Code	Restructured Code	Comment
	If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant shall, where possible, refuse to remain associated with the matter creating the conflict. The professional accountant shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement, the firm or the employing organization.		
3	<p>140.1</p> <p>The principle of confidentiality imposes an obligation on all professional accountants to refrain from:</p> <p>(a) Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and</p> <p>(b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.</p>	<p>R114.1</p> <p>A professional accountant shall comply with the fundamental principle of confidentiality which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall: ...</p> <p>(d) Not disclose confidential information acquired as a result of professional and business relationships to third parties without proper and specific authority, unless there is a legal or professional duty or right to disclose;</p> <p>(e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;</p>	<p>We note that there has been a change regarding with whom confidential information can be discussed.</p> <p>We note that “outside the firm” is clear and understandable, while “third parties” has not been defined. The change in wording may lead readers to question if there has been a change in the confidentiality requirements of the Code.</p>

	Extant Code	Restructured Code	Comment
4	<p>210.1</p> <p>A professional accountant in public practice shall evaluate the significance of any threats. Depending on the nature of the engagement, this may require direct communication with the existing accountant to establish the facts and circumstances regarding the proposed change so that the professional accountant in public practice can decide whether it would be appropriate to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing accountant that may influence the decision to accept the appointment.</p>	<p>320.4 A4</p> <p>Depending on the nature of the engagement, direct communication with the existing accountant might be needed to establish the circumstances regarding a proposed change in appointment. Such communication might assist a professional accountant to decide whether it would be appropriate to accept the engagement. For example, the apparent reason for the change in appointment might not fully reflect the facts. It might indicate disagreements with the existing accountant that might influence the decision to accept the appointment.</p>	<p>The phrase “facts and circumstances” is not consistently used.</p> <p>We note that the phrase “facts and circumstances” follows through from the IESBA Safeguards Project and is a reasonable change. However, this phrase has not been used consistently in the following paragraphs: R120.4, 300.3A1, R310.8, 310.11 A1, 321.5 and 410.3 A9.</p>
5	<p>260.2</p> <p>The existence and significance of any threat will depend on the nature, value, and intent of the offer. Where gifts or hospitality are offered that a reasonable and informed third party, weighing all the specific facts and circumstances, would consider trivial and inconsequential, a professional accountant in public practice may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the professional accountant in public practice may generally conclude that any threat to compliance with the fundamental principles is at an acceptable level.</p>	<p>340.3 A1</p> <p>The existence and significance of a threat created by an offer of a gift or hospitality from a client will depend on the nature, value and intent of the offer. In some circumstances, a reasonable and informed third party would consider some gifts or hospitality to be trivial and inconsequential. In such circumstances, the professional accountant may conclude that the offer is made in the normal course of business without intent to influence decision making or to obtain information, and conclude that any threat to compliance with the fundamental principles is at an acceptable level.</p>	<p>The introduction of the phrase “in some circumstances” does not improve upon or set the proper level of rigor with necessary flexibility to exercise judgement.</p>

	Extant Code	Restructured Code	Comment
6	<p>280.4</p> <p>A professional accountant in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Withdrawing from the engagement team; • Supervisory procedures; • Terminating the financial or business relationship giving rise to the threat; • Discussing the issue with higher levels of management within the firm; or <p>Discussing the issue with those charged with governance of the client.</p> <p>If safeguards cannot eliminate or reduce the threat to an acceptable level, the professional accountant shall decline or terminate the relevant engagement.</p>	<p>112.2.A2</p> <p>Examples of safeguards include:</p> <ul style="list-style-type: none"> • Supervisory procedures. • Discussing the issue: <ul style="list-style-type: none"> ○ With higher levels of management within the firm; or ○ With those charged with governance of the client; • Withdrawing from the engagement team. • Ending the financial or business relationship causing the threat. 	<p>The IESBA may want to include termination as a possible safeguard in the list provided.</p>
7	<p>290.1</p> <p>This section addresses the independence requirements for audit engagements and review engagements, which are assurance engagements in which a professional accountant in public practice expresses a conclusion on financial statements. Such engagements comprise audit and review engagements to report on a complete set of financial statements and a single financial statement.</p>	<p>400.1</p> <p>Independence is a measure of objectivity, both in mind and appearance, which is applied to audit engagements. It enables a firm to express, and be seen to express, an objective conclusion when performing such engagements. It is in the public interest and required by the Code that members of audit teams, firms and network firms be independent of audit clients. C1 sets out requirements and application material on</p>	<p>While the IESBA introduces new introductory material to re-enforce the link between independence and objectivity, we note that this is an amendment from the extant Code.</p> <p>We note that in the definition of “Independence of mind” and “Independence of appearance”</p>

	Extant Code	Restructured Code	Comment
		maintaining independence when performing audit engagements. (See also paragraph 400.7 regarding references to “firm.”)	reference is made to integrity, objectivity and professional scepticism. Thus, there seems to be two different approaches when linking Independence and the fundamental principles.
8	290.28 (cont'd) In complying with requirements in this section to communicate with those charged with governance, the firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity’s governance structure with whom to communicate. If the firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.	R400.15 A firm shall comply with paragraph R300.3 when communicating with those charged with governance.	This revised paragraph that refers to another paragraph is not particularly helpful to the reader of the Code especially since the referenced paragraph (R300.3) does not immediately precede the requirement (R400.15).
9	290.30 Independence from the audit client is required both during the engagement period and the period covered by the financial statements. The engagement period starts when the audit team begins to perform audit services. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at	R400.12 Independence as required by C1 shall be maintained during both: (a) The engagement period; and (b) The period covered by the financial statements.	Though the engagement period has been covered in the Definitions section of the Glossary, we believe that repeating the definition in the body of the Code would be helpful as engagement period is a term that is generally

	Extant Code	Restructured Code	Comment
	the later of the notification by either party that the professional relationship has terminated or the issuance of the final audit report.		understood and a reader will not frequently refer to the glossary.
10	290.38 The professional accountant shall document any interests or relationships covered by paragraphs 290.34 and 36 that will not be terminated by the effective date of the merger or acquisition and the reasons why they will not be terminated, the transitional measures applied, the results of the discussion with those charged with governance, and the rationale as to why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.	R403.7 The firm shall document: (a) Any interests or relationships set out in paragraph 403.1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended; (b) The transitional measures applied; (c) The results of the discussion with those charged with governance; and (d) The reasons why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.	We question whether the change from professional accountant to firm is deliberate. It would seem appropriate for the firm and the professional accountant to document, depending on the circumstances.
11	290.225 A self-interest threat is created when a member of the audit team is evaluated on or compensated for selling non-assurance services to that audit client. The significance of the threat will depend on: <ul style="list-style-type: none"> • The proportion of the individual’s compensation or performance evaluation that is based on the sale of such services; • The role of the individual on the audit team; and • Whether promotion decisions are influenced by 	411.2 A1 When an audit team member for a particular audit client is evaluated on or compensated for selling non-assurance services to that audit client, the significance of the threat will depend on: (a) What proportion of the compensation or evaluation is based on the sale of such services; (b) The role of the individual on the audit team; and	We question whether bullet point (b) can be expanded upon as it is not clear or understandable. Clarity is required if the “role” refers to the seniority of the individual or is dependent on the work that the individual performed.

	Extant Code	Restructured Code	Comment
	the sale of such services.	(c) Whether the sale of such non-assurance services influences promotion decisions.	
12	No definitions provided for the terms “Professional judgement” and “Facts and circumstances”.	<p>Proposed definitions in the restructured Code:</p> <p><u>Professional judgement:</u> <u>The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagements.</u></p> <p><u>Facts and circumstances:</u> <u>Is a broader context that includes relationships, interest, including professional activities (services), interests and relationships.</u></p>	<p>“Professional judgement” and “Facts and circumstances” to be added to the glossary of terms.</p> <p>“Professional Judgement” as included in the Glossary of Terms of the IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements and ‘Fact and Circumstances’ as detailed in the explanatory memorandum of the IESBA Safeguards Exposure Draft.</p>

2. Restructure that has resulted in requirements (or prohibitions) classified as application material

No	Extant Code	Restructured Code	Comment
1	<p>110.1</p> <p>The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness.</p>	<p>111.1 A1 Integrity implies fair dealing and truthfulness.</p>	<p>It seems odd that this description of integrity is not incorporated in the requirement. We propose that integrity be incorporated in the requirement (R111.1) that precedes it.</p>
2	<p>200.2</p> <p>A professional accountant in public practice 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.</p>	<p>R300.2 A professional accountant shall comply with each of the fundamental principles and apply the conceptual framework set out in Section 120 to eliminate threats to compliance with those fundamental principles or to reduce them to an acceptable level.</p> <p>Proposed wording:</p> <p>R300.2</p> <p><u>A professional accountant shall not knowingly engage in any business, occupation or activity that would be incompatible with the fundamental principles of integrity, objectivity or professional behaviour.</u></p>	<p>Though this has been retained as a requirement, the language does not carry the same gravity as in the extant Code. This is due to a prohibition now being written as a requirement. It would also be helpful to reference the specific applicable fundamental principles rather than broadly referencing the fundamental principles. We have proposed an amendment.</p>

No	Extant Code	Restructured Code	Comment
3	<p>210.4</p> <p>Where it is not possible to reduce the threats to an acceptable level, the professional accountant in public practice shall decline to enter into the client relationship.</p>	<p>Covered by conceptual framework language.</p>	<p>While we agree that the extant Code paragraph is covered by the conceptual framework, we would be losing the emphasis of the prohibitions if para 201.4 is left out. We would encourage a repetition of that paragraph.</p>
4	<p>210.5</p> <p>It is recommended that a professional accountant in public practice periodically review acceptance decisions for recurring client engagements.</p>	<p>320.3 A3</p> <p>A professional accountant is encouraged to conduct periodic reviews of acceptance decisions for recurring client engagements.</p>	<p>We note that this is outside the scope of the restructure project, but we recommend that the IESBA considers amending this paragraph to be a requirement.</p>
5	<p>210.6</p> <p>The fundamental principle of professional competence and due care imposes an obligation on a professional accountant in public practice to provide only those services that the professional accountant in public practice is competent to perform. Before accepting a specific client engagement, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly</p>	<p>320.3 A4</p> <p>A self-interest threat to professional competence and due care is created if the engagement team does not possess, or <u>cannot</u> acquire, the competencies to perform the professional services.</p>	<p>We believe that the strength of the statement is lost as it has not been classified as a requirement, even though the extant Code makes use of the word “obligation”. We have proposed a wording change retaining the extant Code. The proposed wording will remove any ambiguity.</p>

No	Extant Code	Restructured Code	Comment
	carry out the engagement.		
6	<p>210.11</p> <p>Examples of such safeguards include:</p> <ul style="list-style-type: none"> • When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted; • Asking the existing accountant to provide known information on any facts or circumstances that, in the existing accountant’s opinion, the proposed accountant needs to be aware of before deciding whether to accept the engagement; or • Obtaining necessary information from other sources. <p>When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in public practice shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.</p>	<p>320.4 A3</p> <p>Examples of safeguards include:</p> <ul style="list-style-type: none"> • Stating in tenders that, before accepting the engagement, contact with the existing accountant will be requested. This contact gives the proposed professional accountant the opportunity to inquire whether there are any reasons why the appointment should not be accepted. • Asking the existing accountant to provide any known information that, in the existing accountant’s opinion, the proposed professional accountant needs to be aware of before deciding whether to accept the engagement. • Obtaining information from other sources such as through inquiries of third parties or background investigations of senior management or those charged with governance of the client. 	<p>The requirement in the last paragraph of the extant Code “to decline the engagement” has been lost. We believe it should be retained.</p>
7	<p>210.14</p> <p>Once that permission is obtained, the existing accountant shall comply with relevant legal and other regulations governing such requests. Where the existing accountant provides information, it shall be provided honestly and unambiguously. If the proposed accountant is unable to</p>	<p>R320.5</p> <p>If unable to communicate with the existing accountant, the proposed professional accountant shall take other reasonable steps to obtain information about any possible threats to compliance with the</p>	<p>This is out of the scope of the structure project but the IRBA Code of Professional Conduct for Registered Auditors has a requirement that we have suggested.</p>

No	Extant Code	Restructured Code	Comment
	<p>communicate with the existing accountant, the proposed accountant shall take reasonable steps to obtain information about any possible threats by other means, such as through inquiries of third parties or background investigations of senior management or those charged with governance of the client.</p>	<p>fundamental principles.</p> <p>R320.7</p> <p><u>Where the proposed client refuses to give permission for the proposed auditor to communicate with the existing auditor, or fails to do so, the proposed auditor shall decline the appointment, unless there are exceptional circumstances of which the proposed auditor has full knowledge, and the proposed auditor is satisfied regarding all relevant facts by some other means.</u></p>	
8	<p>220.8</p> <p>If the firm is a member of a network, conflict identification shall include any conflicts of interest that the professional accountant in public practice has reason to believe may exist or might arise due to interests and relationships of a network firm.</p>	<p>R310.9</p> <p>If the firm is a member of a network, 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.</p>	<p>It is unclear what the requirement is asking the professional accountant to do.</p> <p>“Shall consider” does not read as a strong requirement.</p>
9	<p>220.8</p> <p>If a conflict of interest is identified, the professional accountant in public practice shall evaluate:</p> <ul style="list-style-type: none"> • The significance of relevant interests or relationships; and • The significance of the threats created by performing the professional service or services. 	<p>310.10 A1</p> <p>In applying the conceptual framework when evaluating a threat created by a conflict of interest, factors to consider include the significance of:</p> <ul style="list-style-type: none"> • The interests or relationships; and • The threats created by performing the professional services. 	<p>We question why a “shall” in the extant code has been reclassified as an application matter.</p>

No	Extant Code	Restructured Code	Comment
10	<p>220.11</p> <p>The professional accountant shall determine whether the nature and significance of the conflict of interest is such that specific disclosure and explicit consent is necessary. For this purpose, the professional accountant shall exercise professional judgment in weighing the outcome of the evaluation of the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.</p>	<p>310.11</p> <p>A1 When determining whether specific disclosure and explicit consent are necessary, the conceptual framework requires the professional accountant to exercise professional judgment and consider all the circumstances that create a conflict of interest. Factors to consider include: the parties that might be affected; the nature of the issues that might arise; and the potential for the particular matter to develop in an unexpected manner.</p>	<p>We question why a “shall” in the extant code has been reclassified as an application matter.</p>
11	<p>220.13</p> <p>When disclosure is verbal, or consent is verbal or implied, the professional accountant in public practice is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to reduce the threats to an acceptable level and the consent obtained.</p>	<p>310.11 A4</p> <p>If disclosure or consent is not in writing, the professional accountant is encouraged to document:</p> <p>(a) The nature of the circumstances giving rise to the conflict of interest;</p> <p>(b) The safeguards applied to reduce the threats to an acceptable level; and</p> <p>(c) The consent obtained.</p>	<p>We question why this has not been written as a requirement or, as a minimum, reference the conceptual framework. This would constitute very important evidence.</p>
12	<p>220.14</p> <p>In certain circumstances, making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality. Examples of such circumstances may include:</p> <ul style="list-style-type: none"> Performing a transaction-related service for a client in connection with a hostile takeover of another client of 	<p>310.14 A1</p> <p>For example, a breach of confidentiality might arise when seeking consent to perform:</p> <ul style="list-style-type: none"> A transaction-related service for a client in a hostile takeover of another client of the firm. 	<p>We note that the phrase “making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality” has been omitted. This provides</p>

No	Extant Code	Restructured Code	Comment
	<p>the firm.</p> <ul style="list-style-type: none"> Performing a forensic investigation for a client in connection with a suspected fraudulent act where the firm has confidential information obtained through having performed a professional service for another client who might be involved in the fraud. 	<ul style="list-style-type: none"> A forensic investigation for a client regarding a suspected fraud, where the firm has confidential information from its work for another client who might be involved in the fraud. 	<p>context and should be reinstated please.</p>
13	<p>Footnote to 240.3</p> <p>Contingent fees for non-assurance services provided to audit clients and other assurance clients are discussed in Sections 290 and 29 of this Code.</p>	<p>330.3 A6</p> <p>Contingent fees for services provided to audit clients and other assurance clients are set out in C1 and C2 of the Code.</p> <p>Proposed wording:</p> <p>240.4A</p> <p><u>Notwithstanding the paragraphs above, a professional accountant shall not charge contingent fees for assurance services provided to clients, or for the preparation of an original or amended tax return, as these services are regarded as creating a self-interest threat to objectivity for which appropriate safeguards cannot be applied to eliminate the threats or reduce them to an acceptable level.</u></p>	<p>We note that this may be out of the scope of the IESBA project, but in the IRBA Code of Professional conduct certain contingent fees are prohibited and we have provided suggested wording for its inclusion.</p>
14	<p>250.2</p> <p>If the professional accountant in public practice is in doubt about whether a proposed form of advertising or</p>	<p>115.2 A1</p> <p>If a professional accountant is in doubt about whether a form of advertising or</p>	<p>We question why this paragraph has not been written as a requirement.</p>

No	Extant Code	Restructured Code	Comment
	marketing is appropriate, the professional accountant in public practice shall consider consulting with the relevant professional body.	marketing is appropriate, the accountant is encouraged to consult with the relevant professional body.	
15	<p>290.24</p> <p>The determination of whether the professional resources shared are significant, and therefore the firms are network firms, shall be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.</p>	<p>401.3 A9</p> <p>Whether the shared professional resources are significant depends on the circumstances. For example:</p> <ul style="list-style-type: none"> • Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour. • Where the shared resources involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant. 	<p>We question why this paragraph has not been written as a requirement</p>

3. Restructure that has resulted in a change of tone in the Code

No	Extant Code	Restructured Code	Comment
1	<p>210.1</p> <p>Before accepting a new client relationship, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behaviour may be created from, for example, questionable issues associated with the client (its owners, management or activities).</p>	<p>R320.3</p> <p>A professional accountant shall apply the conceptual framework set out in Section 120 to a professional appointment.</p> <p>320.2 Accepting a new client or a new engagement might create threats to compliance with the fundamental principles.</p>	<p>The context of the extant Code is missing in the restructured Code and should be reinstated.</p>
2	<p>Extract of 220.1</p> <p>A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.</p>	<p>R310.6</p> <p>A professional accountant shall apply the conceptual framework set out in Section 120 and shall not allow a conflict of interest to compromise professional or business judgment.</p>	<p>Why was there a need to reference the conceptual framework?</p> <p>Should this not be a clear prohibition as it is in the extant code?</p>
3	<p>290.10</p> <p>In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the audit team, a firm shall identify and evaluate threats to independence. If the threats are not at an acceptable level, and the decision is whether to accept an engagement or include a particular individual on the audit team, the firm shall determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level. If the decision is whether to continue an engagement, the firm shall</p>	<p>R400.10</p> <p>In applying the conceptual framework, a firm shall:</p> <p>(a) When evaluating the significance of threats to independence, take qualitative as well as quantitative factors into account;</p> <p>(b) If a determination has been made that the threats are not at an acceptable level, and the decision to be made is whether to accept an engagement or include a particular individual on the audit team,</p>	<p>In line with the Safeguards Project, we note that this list is helpful and should not be understated. The IESBA may want to consider repeating it upfront under Section 120, The Conceptual Framework.</p>

No	Extant Code	Restructured Code	Comment
	<p>determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat to independence comes to the attention of the firm during the engagement, the firm shall evaluate the significance of the threat in accordance with the conceptual framework approach.</p> <p>290.11</p> <p>Throughout this section, reference is made to the significance of threats to independence. In evaluating the significance of a threat, qualitative as well as quantitative factors shall be taken into account.</p>	<p>determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level;</p> <p>(c) If the decision is whether to continue an audit engagement, determine whether:</p> <ul style="list-style-type: none"> (i) Any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level; (ii) Other safeguards will need to be applied; or (iii) The engagement needs to be ended; and <p>(d) Whenever new information about a threat to independence comes to the attention of the firm during an audit engagement, evaluate the significance of that threat in accordance with the conceptual framework.</p>	
4	<p>290.34</p> <p>The firm shall take steps necessary to terminate, by the effective date of the merger or acquisition, any current interests or relationships that are not permitted under this Code.</p> <p>However, if such a current interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition, for example, because the related entity is unable by the effective date to effect an orderly</p>	<p>R403.3(b)</p> <p>In the circumstances set the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.</p> <p>403.2</p> <p>It might not be reasonable to end an interest or relationship by the effective</p>	<p>Was there a need for an exception to be brought in? Is this within the scope of the Restructure Code, as it appears to introduce new material?</p> <p>We thus do not at face value agree with the introduction of R403.3(c)</p>

No	Extant Code	Restructured Code	Comment
	<p>transition to another service provider of a non-assurance service provided by the firm, the firm shall evaluate the threat that is created by such interest or relationship.</p> <p>The more significant the threat, the more likely the firm's objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat will depend upon factors such as:</p> <ul style="list-style-type: none"> • The nature and significance of the interest or relationship; • The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent); and • The length of time until the interest or relationship can reasonably be terminated. <p>The firm shall discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition and the evaluation of the significance of the threat</p>	<p>date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.</p> <p>R403.3(c)</p> <p>As an exception to R403.3(b), if the interest or relationship cannot reasonably be ended by the effective date, the firm shall:</p> <p>(i) Evaluate the threat that is created by the interest or relationship; and...</p> <p>403.3 A1</p> <p>The more significant the threat, the more likely the firm's objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat to objectivity might depend upon factors such as:</p> <ul style="list-style-type: none"> • The nature and significance of the interest or relationship. • The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary • The length of time until the interest or relationship can reasonably be ended 	<p>and suggest that it should be deleted.</p>

No	Extant Code	Restructured Code	Comment
		<p>or parent).</p> <p>403.3(c)</p> <p>As an exception to R403.3(b), ...</p> <p>(ii) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the significance of the threat.</p>	