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Our ref SS/288
Contact Sylvia Smith

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Dear Mr Siong

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

We appreciate the opportunity to comment on the above Exposure Draft issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG network.

Our overarching comments are set out below. The appendix to this letter provides our responses to the specific questions posed in the Exposure Draft.

We continue to be generally supportive of the project as we do believe that a restructured Code can result in enhanced usability and enforceability, which we believe to be important to the continued relevance of the Code globally and, further, worldwide adoption.

Please contact Sylvia Smith +44 (0)20 7694 8089 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix A: Response to Specific Questions

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?**
 - (b) The clarity of the relationship between requirements and application material?**
 - (c) The clarity of the principles basis of the 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?**
 - (e) The clarity of language?**
 - (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?**
 - (g) The enforceability of the Code?**

We believe that the restructured Code improves the understandability, specifically with reference to the relationship between the requirements and the corresponding application material. The Guide to the Code does provide a useful overview of how the Code is to be used and the structure. We do wonder whether some of the material currently included in the Guide is more appropriately contained in Part A of the Code – for example, paragraph 6 reads more as a requirement rather than instructional material on how to use the Code. Additionally, paragraphs 10 and 11 under the subsection “Exceptional Circumstances” are an important direction for professional accountants that are most probably better suited to be included in Part A of the Code (e.g. section 100 *Compliance with the Code*) rather than in a section that may not be frequently referenced and may not be considered by some to be part of the Code itself and, accordingly, the importance of such paragraphs diminished.

While we believe that the separation of the requirements from the application material and labelling the requirements with an “R” does help to enhance the prominence and clarity of what is required from other material, we believe using bold text or some other mechanism to highlight

the requirements (e.g. shaded boxes) would further enhance the separation of requirements from application and other material, which in turn should assist with usability and further clarity.

While we continue to be supportive of the need to re-affirm the need for a professional accountant to comply with the Conceptual Framework, we question the value of repeating this statement at the top of every page in the Code.

We feel it would be more useful for users to have the Glossary relocated to the front of the Code (e.g. following the Guide). We also believe that the Board should consider eliminating instances where a term is defined/explained in the body of the Code and then also included in the Glossary.

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

We believe that if lack of clarity as to what is a requirement in the Code is an impediment to adoption of the Code, the proposed restructuring should enhance adoption as it does result in more clarity in this area. Having the requirements clearly distinct from the application material may also help with enforceability in certain jurisdictions, which may, in turn, assist with further/more timely adoption of the 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.

During the course of our review we did note instances where we believe the language in the restructured version of the Code would result in a change in meaning when compared to the relevant extant language. Examples of such instances are:

- A. R521.6 (Extant 290.131) The requirement to consult in accordance with firm policies and procedures regarding certain personal or family relationships has been limited to the firm and not extended to network firm (the extant Code uses the term “firm” and does not explicitly indicate that it does not apply to network firm as would be required per 290.3 unless otherwise stated).
- B. R524.3 (Extant 290.133) The limitation on partners joining audit clients has not been extended to network firm, as arguably may have been the intent of extant language.
- C. R511.7 (Extant 290.122) Extant language describes circumstances under which having a bank or brokerage account with a financial institution audit client would not create a threat to independence. The restructured Code suggests such relationships are not permitted unless those same circumstances exist, resulting in a prohibition rather than a need to assess threats and safeguards.
- D. R520.5 (Extant 290.124) Similar to the point in B above, extant language describes circumstances in which a business relationship involving a closely held entity would not create threats to independence, whereas the restructured text states that such relationships are prohibited unless the criteria is met.

- E. R420.3 (Extant 290.227) The prohibition on gifts and hospitality is not extended to network firm.

The list above is not intended to be comprehensive. It was compiled based on a reading of the exposure draft as opposed to considering the revisions in relation to specific matters we may identify in practice. We would have needed more time to go through this exercise. Given this, we question whether the exposure draft process is sufficient to enable stakeholders to properly consider the question of whether the restructuring has changed the meaning of the Code with respect to specific provisions. We recommend that, prior to finalising the restructured Code, IESBA “pilot test” it with key stakeholders to determine whether the requirements themselves have changed in meaning or, taken together with the application material, would result in a different application in practice.

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 are not opposed to continued use of the term “audit” to include “review” engagements for purposes of the independence standards.

- 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 believe the restructured material is clear in distinguishing firms and network firms. See responses to question 3 regarding noted instances involving the exclusion of network firm from certain requirements in the restructured text.

Title

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

We have no objection to the proposed title *International Code of Ethics Standards for Professional Accountants*. In our response to the Consultation Paper we did indicate that we recognise the benefits of issuing the provisions of the Code as International Standards on Ethics and that we did not view such a rebranding approach would preclude the continuing consideration and reference to these standards in totality as the Code of Ethics for Professional Accountants. We do consider it helpful to retain reference to a “code” which establishes fundamental principles of ethics related to the overarching responsibility to act in the public interest and which underpins the activities of the accountancy profession. However, we understand there may be some challenges as to the appropriateness of using the term “Code of Ethics Standards”. Accordingly, we would not oppose reverting back to the current presentation which includes both a reference to the Board as an international ethics standard setter and to the totality of the provisions being a code of ethical behavior.