



Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 5th Avenue, 6th Floor
New York 10017

April 18, 2016

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

Dear Mr Siong

Introduction

We¹ appreciate the opportunity to comment on the IESBA’s Exposure Draft “Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1”

Principal comments

We support the Board’s overall objectives and believe that, in large measure, the proposed changes to the Code will provide enhanced clarity to assist professional accountants to understand and apply the Code of Ethics (the “Code”). However, we do have a number of comments in response to the specific questions asked by the Board, which are set out in Appendix 1, together with some more detailed commentary provided in Appendix 2.

Contact

If you would like to discuss any of the points raised in this letter, please contact either Jan McCahey (Tel +44 (0) 20 7212 2535 or email jan.e.mccahey@uk.pwc.com) or Andrew Pinkney (Tel +44 (0) 20 7804 2852 or email andrew.c.pinkney@uk.pwc.com). We appreciate that it may be helpful to discuss some of these issues in person and would be very happy to do so.

Yours sincerely,

A handwritten signature in black ink that reads 'Jan McCahey' in a cursive style.

Jan McCahey
Global Regulatory Leader

¹ This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to “PwC”, “we” and “our” refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

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Appendix 1

Q1 - 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?

Please see comments below in relation to the Code as a whole.

We believe that the Guide is a useful document but we note the following:

- Paragraph 6 does not seem relevant to “how to use the Code” and we recommend its deletion. This is covered in Part A.
- The commentary on application material (paragraph 8) contains the following sentence “The entire text of Part A and the relevant Section is required to understand and properly apply that Section”. This seems an important point which is not specific to the application material and we suggest that it should be made more prominent.
- Paragraphs 10 and 11 in the draft guide dealing with “exceptional circumstances” have been moved from the extant “Preface” of the Code to the guide. These are important provisions and we wonder whether they might fit better in Section 100 of the Code.

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

In principle the role of requirements is clear (although we have some comments below under question c). We understand that the application material is intended to help the professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and apply (or comply with) a specific requirement. We propose a clarification of the description of the application material in Appendix 2.

At times we believe that the positioning of application material might be improved. For example:

- 511.4A1 deals with a situation where a loan from a bank is permitted by R511.4 but addresses the situation where the loan is material. It follows the preceding requirement but is not in fact related to the requirement in 511.4, and presumably relates to the application of R511.3. It seems to be guidance to help apply the conceptual framework to this situation. If that is the case, perhaps it should be more closely related to R511.3? Further in sequence, 511.4 A3 may come better before 511.A1 and this may help the flow.
- 524.3 A1 is an important definition in effect to be used in applying the requirement in R524.2. Is its status as application material clear enough? The same might be said of 524.7 A1.

Another example of where it is possible that readers may be confused by the positioning of the application material is Section 521:

- R521.2 establishes the requirement to apply the conceptual framework



- R521.3 then establishes a specific requirement
- 521.3 A1 (and A2) is application material addressing a different set of circumstances and is guidance to help apply the requirement set in R521.2 (and not the requirement it follows).

Accordingly in this case (and others with a similar construct) the application material may be better located following the relevant requirement.

As a general principle, we also believe that provisions that are an exception to a requirement should be clearly located with the requirement (perhaps as a sub-bullet) rather than being application material. There will be a number of these in the Code, such as in the Long Association provisions and proposed 527.7 A1.

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

We have commented on the explanation of the fundamental principles and the conceptual framework in our response to the recent Exposure Draft on “Safeguards” and identified areas where the explanation and illustration of the conceptual framework needs to be revisited in our view. We encourage the Board to consider our comments thereon in the context of this project.

We recommended, in particular, that the examples of threats cited in the Code and used to demonstrate the application of the conceptual framework be expanded to include examples for each of the fundamental principles. To illustrate, a primary threat to compliance with the fundamental principle of professional competence and due care may lie in an individual failing to devote sufficient time to invest in their ongoing professional education or a lack of interest in doing so. This threat does not appear to fall naturally into any of the five threats identified in the Code.

In terms of the Structure we note the following:

Some readers may question the positioning of the requirements and how they fit into a principles based approach. As drafted the requirements, including prohibitions, follow a general requirement to apply the conceptual framework. It could be argued that the requirements should come first, and that the conceptual framework should then be applied to any remaining considerations. While we do not advocate such a fundamental change, we believe that the rationale for the structure can be explained more clearly. We suggest either as part of the guide, or perhaps better Part A, that the Code explains that the Board has determined certain requirements, including prohibitions, through the application of the conceptual framework to particular facts and circumstances. For example, that in some cases the only safeguard available to reduce a threat to an acceptable level is the prohibition of the interest or relationship. This would explain the sequencing of the provisions in the Code.

Further, while the requirement to apply the conceptual framework is pervasive throughout the code, the conceptual framework approach is not incorporated or used as an organizational construct to guide the reader through the mind-set of the three steps of the conceptual framework approach: identify threats; evaluate them; address them to eliminate the threat or reduce it to an acceptable level. This is the approach and format of Sections 120 and 300, but this structure is not used in the specific sections, such as Section 310 on conflicts of interest. We suggest that the Board might



usefully consider whether further clarity might be gained by making the conceptual framework approach more obvious or illustrative in this regard. For example, it may help to have consistent, standing headings entitled "Identifying threats to the fundamental principles", "Evaluating threats to the fundamental principles" and "Addressing threats to the fundamental principles". The "Identifying threats" sub-section would describe specific threats that may be relevant in context of the topic. The "Evaluating threats" sub-section could include "factors to consider", with the "Addressing threats" sub-section dealing with safeguards.

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

We recommend that the language in 400.7 be amended as below to provide greater clarity. Otherwise we support the approach recognising that the Code provides in many places that "the firm" takes appropriate action and that in many circumstances the responsibility will rest, in the case of independence, with an audit team.

Firms are required by International Standards on Quality Control (ISQCs) to establish policies and procedures designed to provide them with reasonable assurance that independence is maintained when required by relevant ethical requirements. International Standards on Auditing (ISAs) establish responsibilities for engagement partners and engagement teams. The allocation of ~~Certain~~ responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of C1 do not prescribe the specific responsibility of individuals within the firm for actions related to independence. Although firms and professional accountants within those firms each have responsibilities for compliance, for ease of reference, many of the provisions of C1 refer to "firm," even if ~~the main~~ responsibility for a particular action ~~is rests with, or is assigned to, with~~ an individual or group of individuals (such as an audit team) within the firm.

(e) The clarity of language?

In broad terms, we agree that the language adopted in the ED is an improvement on the extant code and should help the reader to better understand the code.

(f) The navigability of the Code

We concur that use of an electronic version of the Code can provides users with an enhanced experience and make is easier to navigate the code. We encourage identification of defined terms and the use of hyperlinks to terms defined in the glossary to assist the reader.

While we understand that the Board has decided against the use of bold text for the requirements, we suggest that other ways of highlighting the requirements in an electronic version might usefully be considered, such as colour shadowing of the relevant provisions.

(g) The enforceability of the Code?

We believe that the clearer identification of requirements may help Regulators and others to enforce the code but this is primarily a matter for such stakeholders to comment on.



Q2 - Do you believe the restructuring will enhance the adoption of the Code?

We have already adopted the Code for transnational audits. This is primarily a matter for other stakeholders to comment on.

We suggest that it may be helpful for users of the Code, if a short summary of all the requirements in the code be prepared – this would provide a ready “quick reference” guide to the requirements. This could sit outside the Code. Furthermore, we believe that the preparation of such a document could provide the Board with a readily available tool to initially and then periodically check that all the requirements are clear, make sense when viewed in the context of one another and achieve the objective of a sensible holistic body of ethical requirements for professional accountants.

Q3 - 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 that there are some areas where the meaning has been changed. Our comments are provided in Appendix 2.

We recognise that the Board is making efforts to avoid unintended changes to the Code. We also recognise through its outreach and consultative process that the Board has received significant input to assist with the re-structure. Given that the restructuring results in substantial change to the “look and feel” of the Code, and changes to the wording in the actual sections in the effort to improve clarity, we suggest that the Board consider a pilot study among a limited number of users once the final code structure is determined, but before final publication, to ensure that there are no unintended consequences and that the Code is indeed “fit for purpose” in practice.

Q4 - 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 support continued use of this approach to reduce repetition and unnecessarily long sentences.

Q5 - Do you have any comments on the clarity and appropriateness of the restructured material in the way that it distinguishes firms and network firms?

In general we have no objection to this. It is correct that some of the responsibilities continue to be that of “the firm” which is responsible for the audit opinion taking into account network considerations and requirements (as in the case of responding to the impact of breaches on independence of the reporting firm).

It is important that there is clarity on the implications for the Network. We note, for example, that Section 524 on “Employment with an Audit Client” contains no reference to the network. This would appear to be a change as under the extant Code the reference to the “firm” in extant 290.132 would include a network firm (per 290.3), so that a former partner in a network firm joining an audit client of the audit firm would need to be considered.



Q6 - Is the proposed title for the restructured Code appropriate?

The ED proposes (a) that the code is renamed “International Code of Ethics Standards for Professional Accountants” and (b) that Parts C1 and C2 are labelled “International Independence Standards”.

We believe that this proposal is confusing. Either it is a Code of Ethics or it establishes Standards. The conjunction of the two together does not make sense to us.

We recommend that the Board considers the name “International Code of Ethics and Practice Standards for Professional Accountants” as we believe that this better conveys the intent and role of the Code. We support the reference to International Independence Standards.



Appendix 2

DETAILED COMMENTS

Paragraph Ref.	Comment	Suggested wording (where applicable)
Guide to the Code, para 8.	<p>As drafted this reads that the application material helps “to apply the conceptual framework to....a specific requirement”. We believe this could be more clearly written.</p> <p>521.3A1 is an example of the former (where there is no requirement as such other than to apply the CF to those circumstances), whereas 524.3A1 is an example of material that helps the accountant to apply (or more precisely “comply with”) the requirement in R524.3.</p> <p>Thus the application material has two roles.</p>	<p><i>In particular, the application material is intended to help the professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and or to understand and comply with a specific requirement.</i></p>
100.4 A1	<p>We question whether this reference to breaches of the independence requirements is necessary and appropriate here in Part A. This is clearly covered in Parts C1 and C2 and arguably confuses the message here.</p>	
110.2	<p>It may be helpful to include a statement after this provision to indicate that compliance with the fundamental principles may be threatened as this may help the flow of the document and help the reader.</p>	
R113.1	<p>The inclusion of “based on current developments in practice, legislation and techniques” represents a change to the code,</p>	<p><i>“based on current technical and professional standards and relevant legislation”</i></p>



	<p>albeit not a significant one.</p> <p>We question whether the reference to “developments” is appropriate and we believe that there should continue to be a reference to professional standards.</p>	
320.4 A3	<p>It is not clear whether the investigations are made of senior management or “about” them. We assume the latter. This should be clarified.</p>	<p><i>Obtaining information from other sources such as through inquiries of third parties or background investigations <u>of regarding</u> senior management or those charged with governance of the client.</i></p>
310.8 A1	<p><i>The nature of the services and the interests and relationships might change during the engagement. This is often true in a situation that might become adversarial, although there is no dispute when the engagement begins.</i></p> <p>The change in the word “often” from the extant “particularly true” changes the meaning. The extant code is in effect a point of emphasis, whereas the word “often” implies a frequency. We suggest reverting to the extant language.</p>	
General point	<p>We note that there is inconsistent use of term when referring to people. The terms “individual”, “employee”, “personnel” and “professional employees” are used throughout the code and this does not help the clarity and consistent adoption of the Code. We recommend that the Board review for consistency and clear intent in the context of where the word is used. They are important terms in understanding and applying the code. It is important that there is clarity on who is covered, especially if there is a requirement.</p>	



R310.14	The logic in the extant code seems to be lost and we suggest that the drafting could be improved to make the point clearer.	<p><i>When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:</i></p> <p><i>(a) The firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter; etc</i></p>
330.3 A6	We suggest this could be more clearly written.	<p><u><i>Requirements and application material relating to c</i></u>Contingent fees for services provided to audit clients and other assurance clients are set out in C1 and C2 of the Code.</p>
330.A8	<p><i>A self-interest threat to objectivity and professional competence and due care is also created if a professional accountant pays a referral fee to obtain a client. For example, such a referral fee includes a fee that is paid when the client continues as a client of another accountant but requires specialist services not offered by the existing accountant.</i></p> <p>The struggle to understand the second sentence and suggest this could be re-drafted.</p>	<p><i>For example, such a referral fee includes a fee that is paid by one accountant to another for the purposes of obtaining new client work when the client continues as a client of the existing accountant but requires specialist services not offered by the existing <u>that</u> accountant.</i></p>
400.2	The definition of “Independence in appearance” has been changed to include a reference to the “assurance team”. This seems inappropriate in the context of C1 and a reference to “audit team” in C2 would similarly be inappropriate. We recommend this be reconsidered.	
R402.2	The interaction of this provision on documentation of conclusions and the proposed new requirement	



	<p>regarding an “overall assessment (as proposed in the ED on safeguards) is not clear in our view.</p> <p>We have provided comments on the proposal for an “overall assessment” in our response to the Board’s ED on safeguards. We refer the Board to our comment letter and recommend that this provision be re-considered in the light of deliberations on that overall assessment.</p>	
403.2	<p>In the context of mergers and acquisitions the proposed phrase “it might not be reasonable to end and interest or relationship by the effective date” does not seem to say quite the same thing as the extant code which says “cannot reasonably be terminated by...”</p>	<p>We recommend reverting to the extant language.</p>
R510.7 and many others, such as R511.4	<p>The drafting of various provisions has been changed from “a member of that individual’s immediate family” to, for example, “that individual’s immediate family member”.</p> <p>This does not seem to read well, and indeed implies that the individual only has one immediate family member or that the restriction applies only to one family member.</p>	<p>We recommend reverting to the extant language throughout.</p>
R510.6	<p>This provision is an exception (using the word “may”) and does not contain a “shall”. It is not clear how this paragraph fits into the revised structure relating to requirements.</p> <p>The placement and status of all exceptions to a requirement needs</p>	



	to be clarified.	
R510.9	<p><i>The financial interests are immaterial to the firm, the network firm, the audit team member, that individual's immediate family member and the audit client, as the case may be; or</i></p> <p>This represents an unintended change to the code as it states that the interest has to be immaterial to the holder (for example the audit team member or the family member who holds the interest). Consistent with 510.3 (and the extant Code) their combined net wealth may be taken into account in evaluating the permissibility of the interest.</p> <p>In contrast, the construct of R511.6 seems clearer (use of "and"). Consistency is needed though.</p>	<p>We recommend re-drafting along the following lines:</p> <p><i>The financial interests are immaterial to the firm, the network firm, the individual, the audit client, as the case may be; or</i></p> <p>This would permit the reference to the "individual" to be read in the context of 510.3.</p>
R510.11	<p>The extant code uses the word "including" (290.115) and this is replaced by "such as". Both suffer, on reflection, from an implication that there may be other people to consider. Unless it is evident who might also need to be considered, and we cannot think of any, we suggest the deletion of "such as" to make this more definitive.</p> <p>Further the "in addition to" is inelegant.</p>	<p>Revise to:</p> <p><i>If an audit team member knows that a financial interest in the audit client is held by:</i></p> <p><i>(i) Partners and professional employees of the firm or network firm, other than those addressed in paragraph R510.5, or their immediate family members; or</i></p> <p><i>(ii) Individuals with a close personal relationship with an audit team member.</i></p>
R510.10	We recommend that the two sub-bullets under (b) are merged into one and presented as (b).	
R524.6	Senior or Managing Partner is the more common term used in firms (although Chief Executive may be	



	used). We recommend reverting to the language in the extant code. This would also then be consistent with the term used in the definition of “audit team”.	
Definitions		
Acceptable level	<p>We note that the phrase “weighing all the specific facts and circumstances available to the professional accountant at the time” has been moved to the definition of a “reasonable and informed third party”. While we can see the logic of including this in the latter, we wonder if the definition of “acceptable level” is deficient, not least because it requires a cross reference to another definition.</p> <p>We have provided comments on this in our response to the Board’s ED on Safeguards and would ask the Board to consider those comments.</p>	
Reasonable and informed third party	This has in effect been expanded from the current code to include facts and circumstances that the PA “or could reasonably be expected to know”. We have commented on this in our response to the ED on Safeguards.	