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Our ref SS/288

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Dear Mr Siong

Exposure Draft: Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2

We appreciate the opportunity to comment on the above Exposure Draft (Structure ED- 2) 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.

We continue to be supportive of the project and the intent to enhance the understandability and usability of the Code of Ethics for Professional Accountants (the Code).

Responses to Specific Questions

Structure of the Code Phase 2

Q1. Except for the following observations, we do not believe that the proposals in this ED have resulted in any unintended changes in meaning of:

- The provisions for Part C of the Extant Code, as revised in the close-off document for Part C Phase 1 (Sections 200-270 in Chapter 1)

We note that R220.10 includes a requirement for the professional accountant who intends to rely on the work of others to exercise professional judgment in determining what steps to take in order to fulfil the responsibilities set out in the application paragraph 220.7A1. While we question the appropriateness of cross-referencing a requirement to an application paragraph, we also note that the guidance in paragraph 220.7A1 is worded more like a requirement. We suggest the

Board re-consider these paragraphs to avoid this type of cross-referencing and to clarify whether they are intended to be requirements or application material.

- The revised provisions regarding long association (Sections 540 and 940 in Chapter 3)

We note that the IESBA Staff are preparing a Question and Answer document (Staff Q&A) designed to highlight, illustrate or explain aspects of the revised partner rotation regime in extant Section 290, and thereby assist in their proper application. The restructured revised long association provisions are included in this Structure ED-2. We are aware that there are questions in the Staff Q&A (specifically questions related to Engagement Partner on a Subsidiary of a Public Interest Entity) that have generated a significant amount of debate as to the meaning of the requirements in the revised provisions. This debate provides some evidence that the requirements may not be well understood. Accordingly, we recommend the Board consider whether the provisions could benefit from further clarification.

- The NOCLAR provisions (Sections 260 and 360 in Chapter 2)

We have noted a lack of clarity in the wording of requirements relating to communication of non-compliance or suspected non-compliance in group audit situations (R360.16 and R360.17) and specifically, whether the requirements extend to communicating to firms that are not part of the same network.

In the case of a component audit, R360.16(b) requires the component engagement partner to communicate to the group engagement partner when the audit of the component's financial statements is being performed for purposes other than the group audit. It is not clear whether this would include components subject to audit by a firm or network that is different from that of the group engagement partner's firm or network.

Similarly, R360.17 requires the group engagement partner to consider whether the matter might be relevant to one or more components and if determined to be relevant, the group engagement partner is required to take steps to have the matter communicated to those performing work at the components. Again it is not clear whether the requirement to consider relevance and follow-on actions would be required where those performing work at the components are from a firm or network that is different to that of the group engagement partner's firm or network.

In contrast, the requirements in the case of a professional accountant performing a non-audit service are clearer in that R360.33 sets out the requirements when the service is performed for a client that is not an audit client of the professional accountant's firm or network and R360.31 and R360.32 set out the requirements

when the service is performed for an audit client or component of an audit client of the firm or of the network.

We recommend the Board consider clarifying the requirements in 360.16 and 360.17 in this context to enhance their understandability.

Lastly, with respect to senior professional accountants, R260.15 requires senior professional accountants to determine whether disclosure of non-compliance or suspected non-compliance to their employing organization's external auditor is needed. Application material states that such disclosure would be made pursuant to the senior professional accountant's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit. Given this duty it is not clear what other types of factors would lead a senior professional accountant to conclude that disclosure to the external auditor is not needed. It would be helpful if application material could clarify this by providing examples.

Q2. We believe that the proposals in the ED are consistent with the key elements of the restructuring as described in Section III of the Explanatory Memorandum.

Conforming Amendments Arising from the Safeguards Project

Q3. For comments on the conforming amendments arising from the Safeguards Project, please see our response to the Safeguards ED-2 submitted April 25, 2017.

Effective Date

Q4. While we appreciate the need to establish reasonable effective dates for each of the amendments to the Code, we believe that the release of selected amendments included in the current ED prior to the effective date of the restructured Code creates additional, unnecessary complexity. We suggest that a consistent effective date be applied to all of the proposed amendments.

Please contact Sylvia Smith +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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