

[Draft] Basis for Conclusions
Prepared by the Staff of the IESBA®
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*International Ethics Standards Board
for Accountants®*

Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice



International
Ethics Standards
Board for Accountants®



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[DRAFT] BASIS FOR CONCLUSIONS:
REVISIONS TO CLARIFY THE APPLICABILITY OF PROVISIONS IN
PART C OF THE EXTANT CODE TO PROFESSIONAL ACCOUNTANTS
IN PUBLIC PRACTICE

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I. Introduction

1. This Basis for Conclusions has been prepared by the Staff of the International Ethics Standards Board for Accountants (IESBA). It relates to, but does not form part of, the changes to the *Code of Ethics for Professional Accountants* (the Code) addressing the applicability of the provisions in Part C¹ of the extant Code to professional accountants in public practice (PAPPs). The IESBA approved the final changes under the new structure and drafting conventions of the restructured Code at its December 2017 meeting with the affirmative votes of [insert number] out of 17 IESBA members present.
2. Throughout this document, reference is made to both extant Part B² and Part C as well as Part 2³ and Part 3⁴ of the restructured Code. Further, the term “applicability paragraphs” will be used to refer to the proposed paragraphs under exposure.

II. Background

3. In early 2013, the IESBA approved the [Review of Part C of the Code Project](#) (Part C project) to strengthen Part C of the extant Code to better promote ethical behavior by professional accountants in business (PAIBs). The IESBA agreed to approach the review of extant Part C in two phases:
 - (a) Phase 1, which addressed mainly the topics of pressure to breach the fundamental principles, and the preparation and presentation of information. The IESBA completed Phase 1 in December 2015 with the approval of the close-off document [Changes to Part C of the Code Addressing Preparation and Presentation of Information, and Pressure to Breach the Fundamental Principles](#) (Part C close-off document). This includes revisions to extant Section 320⁵, a new Section 370⁶ and conforming amendments to other sections of extant Part C. Those revisions were drafted in accordance with the structure and drafting conventions of the extant Code.
 - (b) Phase 2, which involves a review of the provisions relating to inducements in the extant Code. The Exposure Draft, [Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements](#) (Inducements ED) was approved in June 2017, and released in September 2017 with 90-day comment period that ended on December 8, 2017. The IESBA plans to consider the feedback from respondents to the Inducements ED during its March and June 2018 meetings, with a view to approving final proposals in June 2018.

Overview of Applicability Project

- ¹ Extant Part C – Professional Accountants in Business
- ² Extant Part B – Professional Accountants in Public Practice
- ³ Part 2 – Professional Accountants in Business
- ⁴ Part 3 – Professional Accountants in Public Practice
- ⁵ Extant Part C, Section 320, *Preparation and Reporting of Information*
- ⁶ Extant Part C, Section 370, *Pressure to Breach the Fundamental Principles*

4. During the IESBA's deliberations in Phase 1 of the Part C project, questions were raised about the applicability of the provisions in extant Part C to PAPPs. There was a view that its guidance could be interpreted to mean that the Code contains two distinct parts (i.e., extant Part B and Part C) directed at two different categories of professional accountants.⁷ Whilst the extant Code provides that "Professional accountants in public practice may also find Part C relevant to their particular circumstances",⁸ the IESBA acknowledged that questions can be raised about the intended meaning of this guidance and how PAPPs should apply it.
5. The IESBA believed that it is possible for PAPPs to face similar issues and ethical dilemmas as PAIBs. Accordingly, the IESBA agreed to clarify the circumstances in which the provisions in extant Part C should also apply to PAPPs. In developing its proposals, the IESBA also addressed comments from the December 2015 Exposure Draft, [*Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1*](#) (Structure ED-1), that existing guidance in Part A of the extant Code might be overlooked by PAPPs given its location.
6. In January 2017, the IESBA published an Exposure Draft, [*Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice*](#). Forty comment letters were received from various respondents, including regulators and audit oversight bodies, national standard setters, IFAC member bodies, other professional bodies, and firms. There was widespread support from respondents for the objective of proposals to clarify the circumstances in where the provisions in extant Part C should apply to PAPPs.
7. The IESBA also discussed this project with its Consultative Advisory Group (CAG) on two occasions: at the project commencement stage and after comment period had closed.

Restructuring of Extant Part C

8. As part of its project to restructure the Code for greater understandability and usability (the Structure of the Code project), the IESBA issued for exposure in January 2017, *inter alia*, the proposed restructured text for the Part C close-off document. These proposals are included in the January 2017, Exposure Draft, [*Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2*](#) (Structure ED-2). The proposals in Structure ED-2 also include proposed conforming amendments arising from the IESBA's Safeguards project (see Exposure Draft, [*Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments*](#) (Safeguards ED-2)). The restructuring of the Code is not intended to change its meaning. The comment period for Structure ED-2 closed on May 25, 2017 and the IESBA also approved the restructured Code in December 2017.

⁷ Extant paragraph 200.1 states that "This part [Part B] of the Code describes how the conceptual framework contained in Part A applies in certain situations to professional accountants in public practice". Extant paragraph 300.1 states that "This part [Part C] of the Code describes how the conceptual framework contained in Part A applies in certain situations to professional accountants in business."

⁸ Extant Part A – General Application of the Code, Section 100, *Introduction and Fundamental Principles*, paragraphs 100.3 and 100.12

III. Applicable Circumstances

Considering the Context

9. In developing the proposals in the Exposure Draft, the IESBA concluded that the most effective way is for the proposals to clarify that the requirements and application material in the Code should be applied in a holistic manner. The IESBA was of the view that PAPPs should be required to consider the context within which an ethics issue has occurred, and then consult the relevant requirements and application material in the extant Code.
10. One respondent had suggested that the phrase “facing an ethical issue” in the Exposure Draft may be inaccurate as the phrase implied that a professional accountant has already encountered a specific ethics issue that needs to be addressed. Other respondents suggested that the proposals could be enhanced by requiring professional accountants to consider the provisions in the whole Code (including extant Part C) and comply with all the requirements applicable to the particular circumstances.

IESBA Decision

11. The IESBA considered all matters relating to threats to compliance with the fundamental principles as ethics issues. In addition, the IESBA agreed to replace the word “facing” with “dealing with” and “occurred” with “arisen or might arise” to clarify that a professional accountant is required to consider an ethics issue, whether it has taken place or not, and to take proactive actions to address the threats created.
12. With regards to the suggestion that the applicability paragraphs should require all professional accountants to consider the whole Code, the IESBA was of the view that this suggestion does not add to what is already in the Code⁹ and may also inadvertently draw the focus away from the objective of the proposals, which is to ensure PAPPs consider the requirements and application material in extant Part C and apply the relevant provisions.

Application of Part C to Client Services and Relationships

13. One respondent suggested that the proposals did not clearly explain the circumstances that may trigger the applicability of the provisions in extant Part C. This respondent pointed out that the phrase “pursuant to the accountant’s employment” in the proposals may be interpreted as applying to all professional activities that are undertaken by PAPPs in the context of their work for firms. It was also argued that the employment and client contexts and relationships are interdependent and not in distinct realms and that, as the example in the proposals pointed out, a professional accountant’s client engagement and employment relationship are in a web of influence that should be considered holistically.

⁹ Extant Code, Part A, Section 100, paragraph 100.3. Paragraph 100.3 states:

“A professional accountant shall comply with the Code [emphasis added]. There might be circumstances when laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.”

IESBA Decision

14. The IESBA agreed that matters relating to a PAPP's client engagement and employment relationship in a firm are often interrelated. However, the IESBA believed that the proposals in the Exposure Draft sufficiently covers this point and that further explanation about the context of the activity in the proposals is not warranted.
15. In considering respondents' comments on the applicable circumstances and whether the scope of the proposals need further clarification, the IESBA noted that, whilst all the sections in Part C primarily deal with matters internal to the employing organization, there are situations where the applicability paragraphs may require PAPPs to apply Part C when they perform professional services for clients or to their client relationships. In this regard, the IESBA noted that Sections 220¹⁰ and 270¹¹ of the restructured Code deal with situations not only within, but also outside the employing organization. As such, it may be argued that they should be applicable to the provision of professional services by PAPPs and to their client relationships respectively. It is of note that there is no corresponding material in extant Part B to address these situations.
16. Following careful consideration, the IESBA concluded that the provisions in extant Part C are applicable when PAPPs are performing professional services for clients and to their client relationships. The IESBA further agreed that these circumstances should not be excluded from the scope of the applicability paragraphs.
17. The IESBA acknowledged that some respondents might not have considered that such application of extant Part C to the provision of client services or to client relationships would fall within the scope of the applicability paragraphs. The IESBA agreed to revise the examples in the proposals to more clearly illustrate this point (see also Section VI).

Professional Accountants Performing Multiple Roles

18. There was a view that the proposals do not cover those situations where a professional accountant serves in multiple roles as both a PAPP and PAIB. For instance, a professional accountant may provide professional services to clients of a firm as well as serve as a volunteer on the board of directors of an organization. It was suggested that, whilst those professional accountants in multiple roles should realize that extant Part C applies to their PAIB activities, it might be beneficial if the proposals also clarify the applicability of Part C in such circumstances.

IESBA Decision

19. The IESBA believed that a professional accountant should already be aware of the applicability of the requirements and application material in extant Part C when performing the role of a PAIB and that a reminder in the applicability paragraphs is not warranted.

¹⁰ Part 2, Section 220, *Preparation and Presentation of Information*, paragraph 220.4 A1

¹¹ Part 2, Section 270, *Pressure to Breach the Fundamental Principles*, paragraph 270.4 A1

IV. Type of Professional Accountants in Public Practice

Individual Professional Accountants

20. Some respondents have commented that the scope of the proposed requirements in the Exposure Draft may have the unintended consequences of being overly expansive due to the Code's definition of PAPP. These respondents pointed out that the current definition includes "a firm of professional accountants in public practice". Accordingly, without any express limitation to the contrary, an individual who is not a professional accountant working in a firm will also be required to follow extant Part C under the proposals. It was suggested that such consequences may cause administrative burden without any benefit.

IESBA Decision

21. The IESBA agreed that an individual who is not a professional accountant should not be required to comply with Part C of the extant Code when working in a firm. Further, the IESBA noted that the focus of the applicability paragraphs must align with that of extant Part C which is on the individual accountants only.
22. In deliberating whether the proposals in the Exposure Draft should be revised to reflect its view, the IESBA considered whether the current definitions of "professional accountants" and "professional activities" mean any individual who is not a professional accountant should already be effectively excluded from the scope of the proposals. The IESBA concluded that, to avoid confusion, the proposals in the Exposure Draft should be revised to clarify the scope to include only individual PAPPs.

Contractors

23. A few respondents highlighted that the explanatory memorandum had mentioned professional accountants who act as contractors of organizations, thus implying that this type of relationship should also be within the scope of the applicability paragraphs. These respondents were of the view that contractors should be expressly included in the scope of the applicability paragraphs.

IESBA Decision

24. The IESBA agreed that the proposals should be revised to capture not only those individual PAPPs who are employees and owners of firms but also those working as contractors. The IESBA was of the view that the use of contractors is increasingly common in an emerging workforce and, therefore, this type of PAPPs should also be required to comply with Part C of the extant Code. The IESBA's conclusion also aligns with the scope of extant Part C on PAIBs as the definition of PAIB includes, *inter alia*, those working as contractors in an employing organization.

V. Location of the Applicability Paragraphs

25. The IESBA proposed that the applicability paragraphs be located:
- Within Part 1 of the restructured Code, after paragraph 120.3 A1¹²; and

¹² Paragraph 120.3 A1 includes application material outlining the content of each part of the Code and notes that the conceptual

- Within Section 300¹³ of Part 3 of the restructured Code, immediately after paragraph R300.4 which provides the requirement for PAPPs to apply the conceptual framework.
26. The conceptual framework set out in Section 120 has been given greater prominence in the restructured Code and hence will likely be the most utilized section by professional accountants. The IESBA was of the view that the applicability paragraphs should also be placed within Section 300¹⁴ of Part 3 of the restructured Code to emphasize upfront to PAPPs that consideration of the provisions within the Code should not be limited to the requirements and application material in Part 3 and that the provisions in Part 2 would also be relevant.
27. In general, respondents either expressed support or did not raise any concerns about the proposed location of the applicability paragraphs. However, a few respondents suggested that the applicability paragraphs should be located elsewhere in Part 1 and Part 3. Other respondents were of the view that the applicability paragraphs should be included in either Part 1 or Part 3 only to avoid unnecessary repetition.

IESBA Decision

28. Following deliberations, the IESBA affirmed its view that it is appropriate for the proposed requirements to be placed in both Part 1 and Part 3 in order to give the provisions more prominence. However, the IESBA agreed that the application material in Part 3 need not be repeated in Part 1 to avoid unnecessary repetition.
29. The IESBA has also updated the reference to a professional accountant in paragraph 200.4 of the restructured Code and has included a reference to the applicability paragraphs in the Guide to the Code.

VI. Illustrative Examples

30. In developing the proposals in the Exposure Draft, the IESBA believed that the objective of the applicability paragraphs would be enhanced by including an example of a situation where a PAPP might face an ethical dilemma within the context of the accountant's employment. The example set out in the Exposure Draft illustrates that when a professional accountant is experiencing pressure from a superior to underreport chargeable hours, the requirements and application material set out in Section 270 of the restructured Code apply.
31. While a few respondents suggested improvements in relation to the proposed examples included in the Applicability ED, the majority of respondents did not raise any concerns. Suggestions from those few respondents included:
- Minor revisions be made to the proposed example.

framework applies to all professional accountants.

¹³ Section 300, *Application of the Conceptual Framework for Professional Accountants in Public Practice*

¹⁴ Part 3 – Professional Accountants in Public Practice, Section 300, *Application of the Conceptual Framework for Professional Accountants in Public Practice*

- The proposed example should be expanded to further illustrate how professional accountants should apply the requirements and application material set out in Section 270.
 - The proposed example should be replaced with an alternative example that is more relevant and provides more clarity and guidance on how extant Part C provisions would apply to PAPPs. For example, it was suggested that the examples include ones relating to conflicts of interests, the preparation of engagement budgets, as well as, one composite example that relates to different sections in extant Part C.
32. Instead of the approach of using one single example in the application material, some respondents recommended the use of a non-exhaustive list of situations or multiple examples to assist professional accountants with understanding the proposed requirement.

IESBA Decision

33. Upon due consideration, the IESBA agreed to replace the example that was included in paragraph 300.5 A1 of the Applicability ED with four examples dealing with a range of circumstances and issues where extant Part C might be applicable to PAPPs. In reaching this conclusion, the IESBA took into account that some PAPPs may not be familiar with the provisions in Part C of the extant Code. The four examples involve different scenarios, drawing the users' attention to those sections in extant Part C that deal with conflicts of interest, preparing or presenting financial information, inducements and pressure.
34. While noting that they are not intended to be an exhaustive list of circumstances and types of ethics issues, the IESBA believed that these new examples will give greater coverage and richness to the Code and assist PAPPs in better understanding how extant Part C provisions might apply in the context of their work with a firm. In developing the new examples, the IESBA also took into consideration the need to include an example to illustrate how some of the provisions in extant Part C would apply to situations when PAPPs are performing professional services for clients or to their client relationship.

VII. Other Matters

Titles of Part 2 and Part 3 of the Restructured Code

35. Some respondents recommended that the IESBA consider whether there is merit to having separate provisions for PAIBs in Part 2 and for PAPPs in Part 3 of the restructured Code. Those respondents questioned whether the provisions in the Code might be clearer and more understandable if the material were presented in a manner that does not focus on professional accountants' roles and responsibilities. The alternatives suggested to the IESBA for consideration include:
- Revise the headings of both Part 2 and Part 3 to reflect the context in which the ethics issues arise.
 - Change the title of Part 2 to include all professional accountants as it was considered that such a change would not have significant impact on the content under this Part.
 - Merge Part 1 and Part 2 with a new section that address specific requirements for professional accountants in public practice and independence for audit and review engagements.

IESBA Decision

36. The IESBA considered the suggestions made but ultimately agreed that the approach taken in the restructured Code is appropriate and that the titles of Part 2 and Part 3 of the restructured Code should be retained.
37. The IESBA was of the view that a reorganization of the material in the restructured Code, or a change in titles of Part 2 and Part 3 may have the unintended consequence of de-emphasizing the provisions in the Code for PAIBs. Such a change would also require broader consideration of the applicability of material in the PAPP section of the Code to PAIBs, a matter that is outside the scope of the Part C project.

VIII. Effective Date

38. The effective date for the approved applicability paragraphs will be aligned to the effective date for the restructured Code (see the Basis for Conclusions for the Structure of the Code project).

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