

April 15, 2015

Ken Siong, IESBA Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017
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Re: IESBA Exposure Draft – *Proposed changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles*

Dear Mr. Siong,

The Professional Ethics Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide comments on the proposed revisions to the Code of Ethics for Professional Accountants. The PICPA is an association of more than 22,000 accounting professionals working to improve the CPA profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is a cross-section of our membership, with practitioners from large, regional, and small public accounting firms, members serving in business and industry, and accounting educators.

Our general comments and specific responses to the questions in the exposure document are included below.

General Comments

The committee applauds the IESBA for undertaking a project to enhance the guidance on the responsibilities of professional accountants in business (PAIBs) to produce financial reports that are faithful representations of the economics of transactions, and for responding to pressures by superiors and others to engage in unethical or illegal acts. The committee specifically supports expanding the scope of the PAIB's responsibilities to include information for internal use; providing additional guidance as to the meaning of the fair and honest principle; clarifying that PAIBs are not absolved of their responsibility to comply with the fair and honest principle when they rely on others in presenting information; expanding the guidance for misuse of discretion; and providing more explicit guidance for disassociation from misleading information. The additional guidance for undue influence is also helpful.

Specific Comments

Proposed Revised Section 320

1. Is the enhanced guidance on applying the “fair and honest” principle in Section 320 helpful?

Yes, the guidance is helpful and provides specific criteria to enhance the PAIB's understanding of his or her responsibilities. While the guidance is very helpful, a concern does exist about the applicability in the United States to those PAIBs who are not CPAs. Additionally, the guidance is specified in a negative way. Instead, the committee recommends illustrating the "fair and honest" principle in a positive way, with the negative guidance modifying and reinforcing the positive. For example:

Representing the facts accurately and completely in all material respects.

Describing clearly the true nature of business transactions or activities.

Recognizing, measuring, and otherwise faithfully representing all elements of financial reporting appropriately and accurately.

Classifying and recording information in a timely and proper manner.

Employing methods that foster the ability of users to compare one firm with another and one time period with another.

Disclosing all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, analyses, or recommendations. (From the IMA's Statement of Ethical Professional Practice)

Disclosing delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law. (From the IMA's Statement of Ethical Professional Practice)

Providing decision support information and recommendations that are accurate, clear, concise, and timely. (From the IMA's Statement of Ethical Professional Practice)

Presenting the information in accordance with a relevant reporting framework, where applicable.

Such positive assertions might then be modified and reinforced with the following proposed revisions to Section 320.2:

Not omitting information with the intention of rendering the information misleading.

Preparing or presenting information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately.

2. In particular, do respondents support the guidance in paragraph 320.3 addressing the issue of misuse of discretion in a manner that is intended to mislead? If not, please explain why. Are there any other considerations relating to this issue that should be addressed in Section 320?

The committee supports the proposed guidance concerning the misuse of discretion. Such standards are clearly incorporated within the AICPA Code of Professional Conduct in the guidance related to integrity,

objectivity, and due care. The application and reinforcement of the applicability to PAIBs will enhance the value of the financial and nonfinancial information provided to the respective audience.

Similar to the comment to question 1, we suggest focusing on the positive. For example, the first paragraph of 320.3 might be rewritten as follows (changes in red):

320.3 Preparing or presenting financial information often involves **sensitive and professional** judgment and discretion. Preparing or presenting such information fairly and honestly requires the professional accountant ~~not~~ to exercise such discretion **with due care, objectivity, or integrity with a focus on improving the quality of information provided to users. Transactions requiring professional accountants to exercise sensitive and professional judgment include, but are not limited to, revenue recognition, accounting for contingencies, making fair value and other estimates, and selecting accounting principles. Professional accountants should never exercise such discretion** in a manner that is intended to mislead, including when...

3. Paragraph 320.4 provides guidance as to what PAIBs are expected to do ethically in order to prepare or present fairly and honestly information that does not have to comply with a relevant reporting framework. Is this guidance sufficient? If not, what further guidance could Section 320 usefully provide?

The ethical guidance is sufficient. However, the committee recommends stressing the following:

Disclosing delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law. (From the IMA's Statement of Ethical Professional Practice)

Providing decision support information and recommendations that are accurate, clear, concise, and timely. (From the IMA's Statement of Ethical Professional Practice)

4. Do respondents agree that where a PAIB relies on the work of others, the PAIB should be required to take reasonable steps to be satisfied that such work enables the PAIB to comply with the overarching principle in paragraph 320.2?

The committee supports such an initiative. This is similar to the responsibilities of professional accountants in public practice, and would align the two professional standards more specifically. Additionally, it would be useful to have examples for such steps. For example, when using specialists one must take steps to be certain that the specialist has the qualifications and objectivity necessary to perform specialized tasks. In some situations, one may employ multiple specialists, for example when assessing the fair values of level-three assets and liabilities that specialists might value in quite different ways.

5. Do respondents agree with the guidance proposed in paragraphs 320.6 and 320.7 regarding disassociation with misleading information? Are there other actions that could be specified?

The committee has concerns, and suggests that the framework of the purpose or intent, context, and audience be reinforced.

Proposed Section 370

1. Do respondents agree with the overarching requirements in paragraphs 370.1 and 370.2?

Yes. The explicit requirement that the PAIB should not place pressure on others that the professional accountant knows, or has reason to believe, would result in a breach of the fundamental principles is a welcome addition. It would also be useful if Section 370 associated the concept of pressure to that of the control environment, the most important element of an internal control framework to maintain, if one wants to avoid fraudulent financial reporting.

2. Are the illustrative examples of types of pressure that could result in a breach of the fundamental principles in paragraph 370.4 helpful?

Yes.

3. Is it sufficiently clear that Section 370 addresses pressure that could result in a breach of fundamental principles, as opposed to the routine pressures that exist in the workplace? In particular, does paragraph 370.5 provide sufficient guidance to assist the PAIB in making that distinction?

Yes.

If not, what other considerations should the PAIB take into account?

Not applicable.

4. Do respondents find the guidance in paragraph 370.6 on responding to pressure that would result in a breach of the fundamental principles helpful?

Yes.

Are there other actions that should be considered?

The impact of professional judgment should be reinforced, as well as the need to continuously maintain professional skepticism. The wording in 370.6 suggests that it would be acceptable to simply separate oneself from a business segment that is misleading the public while maintaining employment with the firm. The committee recommends rewording the section for clarity, as simply removing oneself of the situation is an insufficient response.

Request restructuring or segregation of certain responsibilities and duties so that the professional accountant is no longer involved with the individual or entity exerting the pressure.

5. Are the references to other sections of Part C of the Code, in paragraph 370.9, helpful?

Since these revisions cover a broad-range of responsibilities, further guidance of additional educational background (i.e., economics, broad-based business knowledge, etc.) should be discussed to further provide examples of the responsibilities.

Thank you for the opportunity to provide our comments related to the proposed revisions to the Code of Ethics for Professional Accountants. Feel free to contact me at (717) 228-1711 or the PICPA Staff Liaison, Allison Henry, at (215) 972-6187 with any questions regarding our comments.

Sincerely,



Francis X. Ryan, CPA
Chair, PICPA Professional Ethics Committee

cc: Lisa Snyder, Director AICPA Ethics Division
Allison Henry, CPA, PICPA Staff Liaison