



KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

Tel +44 (0)20 7694 8871
sylvia.smith@kpmgifrg.com

Ken Siong
Technical Director
International Ethics Standards Board for
Accountants (IESBA)
529 Fifth Avenue, 6th Floor
New York, NY 10017
United States of America

Our ref SS/288
Contact Sylvia Smith

15 April 2015

Dear Mr Siong

Exposure Draft, Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles

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.

We set out our overarching comments in response to the ED below. We have not provided detailed responses to the specific questions set out in the ED as we believe these are most appropriately answered by professional accountants in business (PAIBs). However, given that PAIBs are a critical part of the financial reporting supply chain and facilitate effective governance within organisations, we would like to raise the matters below, which we hope will be helpful to IESBA in moving forward with this initiative.

We are supportive of the existing principle in the Code that a PAIB prepare or present financial information in a manner that is “fair and honest”, in accordance with applicable financial reporting standards, and in accordance with the principle of integrity.

We note that a basic principle in the ED, as described in paragraph 320.6, is the notion that a PAIB should not be associated with misleading information. We are concerned that the requirement for the accountant who determines that he/she is associated with misleading information to take steps to rectify the matter could be onerous in this context. Firstly, there is a lack of clarity about the circumstances in which association with financial information prepared within the employing organisation might arise. Whilst the preceding paragraphs discuss information that is directly within the control of the professional accountant, paragraph 320.6 implicitly references a broader set of information, the boundaries of which are unclear. Secondly, it may be unreasonable to place such requirements on an accountant who has little ability to act with respect to such information.

We are also concerned that in making changes to the Code to build on the fair and honest principle, other than the requirement to consider resigning, the proposed revisions do not adequately address the stated purpose of providing guidance in respect of disassociating from misleading information.

In particular, we note that the proposals now require that a professional accountant “shall consider resigning” from the employing organisation when they have been unable to resolve the matter of (potentially) misleading information. We believe that resignation may be unduly onerous for PAIBs at a more junior level within an organisation and importantly does not, in our view, provide an effective means to drive the behavioural changes needed within the affected organisation to establish a culture and environment that is focused on ethical behaviour. Furthermore, we consider that it may be difficult for PAIBs at this level to comply with such a requirement and demonstrate that they have done so.

We note that there is a statement in Part C of the Code that the more senior the position of the professional accountant, the greater will be their ability and opportunity to influence events, practice and attitudes and therefore such accountants are held to a higher standard within the Code. This includes the expectation that they will be responsible for encouraging an ethics-based culture in their organisations.

We also note that other changes to the Code in respect of responding to non-compliance or suspected non-compliance with laws and regulations (NOCLAR) are currently in progress, which interact to a degree with the provisions of the Code in respect of misleading information. We highlight that the proposed changes in respect of NOCLAR not only build on the statement above, but also give explicit recognition to the differing levels of seniority of PAIBs and propose required actions that are proportionate to a PAIB’s role and responsibility, premised on the overriding principle to act in the public interest.

We recommend that the Board consider the implications of the NOCLAR approach on the proposals outlined in this ED. In particular, we suggest that the Board consider focusing proposals for enhancement on those employed or engaged in an executive capacity, i.e., those with financial reporting and corporate governance responsibilities. This would include considering the actions they should take to ensure their organisations establish appropriate control environments, policies and procedures that are focused on compliance with laws and regulations, true and fair financial reporting and the reporting of non-compliance with laws and regulations by all employees without fear of reprisal.

Please contact Sylvia Smith at +44 20 7694 8871 if you wish to discuss the contents of this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited