



National Association of State Boards of Accountancy

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March 31, 2015

International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, New York 10017

Attention: Ken Siong, IESBA Technical Director

Re: November 2014 Exposure Draft on Proposed Changes to Part C of the Code Addressing  
Presentation of Information and the Pressure to Breach the Fundamental Principles

Dear Members and Staff of the International Ethics Standards Board for Accountants (IESBA):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments on the Exposure Draft from the International Ethics Standards Board for Accountants on its *Exposure Draft on Proposed Changes to Part C of the Code Addressing Presentation of Information and the Pressure to Breach the Fundamental Principles*. The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories. In furtherance of that objective, we offer the following comments on the Exposure Draft. We offer one overall comment related to the exposure draft, after which our comments relate the specific questions raised in the exposure draft.

## OVERALL COMMENTS

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An important recurring theme in the exposure draft deals with the intent of the professional accountant. As regulators, State Boards of Accountancy have often found that it is difficult to determine an individual's intent with any degree of certainty, which is critical from an enforcement standpoint. In our opinion, the proposed guidance should focus instead on results; that is, whether the resulting information is presented fairly, in all material respects in accordance with the applicable financial reporting framework.

[Request for Specific Comments on the Proposed Revised Section 320](#)

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

We believe that the enhanced guidance on applying the “fair and honest” principle can be improved in two respects. First, the concept of “fair and honest” should be directly linked to the fundamental principle of integrity – “to be straightforward and honest in all professional dealings.” Second, we have concerns about the first two bullets in paragraph 320.2, which address the intent of the professional accountant. As we state above, intent is difficult to determine. Rather, the discussion of “fair and honest” should focus on the professional accountant’s obligation to prepare information in a fair and honest manner (i.e., not misleading) and in accordance with the applicable financial reporting framework.

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?

As we state in our overall comment, we are concerned about IESBA setting a standard that is based on the professional accountant’s “intent to mislead,” as intentions and mindset are often difficult or impossible to determine. Paragraph 320.3 as proposed “requires the professional accountant not to exercise such discretion in a manner that is intended to mislead...” We believe that paragraph 320.3 instead should focus on the outcomes that result from the professional accountant’s use of discretion in preparing or presenting information in compliance with applicable financial reporting framework. We appreciate that the professional accountant in business (PAIB) may exercise discretion in determining estimates, selecting accounting principles, determining the timing of transactions, determining the structure of transactions, or in determining disclosures. We believe that this paragraph needs to focus on whether the exercise of discretion results in information that is presented fairly in all material respects and in accordance with the applicable financial reporting framework.

Finally, we also believe that it is important for paragraph 320.3 to refer back to the guidance on the principle of integrity provided in paragraph 110.2. A PAIB should not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information (a) contains a materially false or misleading statement, (b) contains statements or information furnished recklessly, or (c) omits or obscures information required to be included where such omission or obscurity would be misleading.

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?

We are supportive of the guidance provided in paragraph 320.4. It is important for the PAIB to understand the purpose for which the information is to be used, and to consider the context in which information is provided and the audience to whom it is addressed.

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?

We do not believe that there is sufficient guidance in paragraph 320.5 with respect to what reasonable steps might be to rely on the work of others. In our opinion, this guidance would be improved if it was clear that “reasonable steps” should be viewed through the perspective of a reasonable and informed third party, and based on the qualifications of the PAIB.

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?

We support the PAIB: “Determining whether any requirements exist to communicate to third parties, including users of information, regulatory authorities or the employing organization’s external accountant.”

We would recommend that the Board consider incorporating additional guidance that is currently part of the AICPA Code of Professional Conduct on how an AICPA member in business would address concerns regarding potential Subordination of Judgment (AICPA Code Section 2.130.020). For example, the AICPA Code of Professional Conduct states that “if after discussing the concerns with the supervisor and appropriate higher level(s) of management within the member’s organization, the member concludes that appropriate action was not taken, then the member should consider documenting his or her understanding of the facts, the accounting principles, auditing standards, or other relevant professional standards involved or applicable laws and regulations and the conversations and parties with whom these matters were discussed.” We believe that it is important for the professional accountant to document his or her discussions with progressively higher levels of management.

The AICPA Code of Professional Conduct also states that “If the member concludes that no safeguards can eliminate or reduce the threats to an acceptable level or if the member concludes that appropriate action was not taken, then he or she should consider the continuing relationship with the member’s organization and take appropriate steps to eliminate his or her exposure to subordination of judgment.” We believe that there are times

when the professional accountant needs to consider his or her continuing relationship with his or her employer.

In our opinion, the exposure draft does not go far enough and should incorporate these additional requirements.

### [Request for Specific Comments on the Proposed Revised Section 370](#)

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

We agree with the overarching requirements expressed in paragraphs 370.1 and 370.2.

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

We found the examples of types of pressures that could result in a breach of the fundamental principles that are illustrated in paragraph 370.4 helpful, and we are supportive of this guidance.

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

In our opinion, paragraph 370.3 makes it clear that Section 370 does not address routine pressure encountered in the workplace. Further, the examples that are proposed in paragraph 370.4 were both helpful, and they represent pressures beyond routine pressures of the workplace. However, in reading paragraph 370.5 it was not clear that this paragraph was intended to provide guidance on making a distinction between routine pressures that exist in the workplace and other pressures that could cause a PAIB to breach fundamental principles.

We support the advice: “Being alert to the fundamental principle of confidentiality, the professional accountant may also wish to consult with:...Relevant professional bodies, regulators or industry associations.” This underscores that the PAIB would not be in violation of the principle of confidentiality if circumstances as outlined led him or her to speak with regulators.

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? Are there other actions that should be considered?

In our opinion, the bullet that reads “Engage in constructive challenge with the individual exerting the pressure” was unclear. We believe language that is stronger than “constructive challenge” is appropriate. For example, we would support guidance similar to the following:

If the professional accountant has determined that the pressure would result in a breach of the fundamental principles, the PAIB should discuss his or her concerns with the PAIB's supervisor. If the breach of the fundamental principles is not resolved after discussing the concerns with the supervisor, the PAIB should discuss his or her concerns with the appropriate higher level(s) of management within the PAIB's organization (for example, the supervisor's immediate superior, senior management, or those charged with governance).

We also believe that the bullet point that reads “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,” provides guidance that is inappropriate. It is not appropriate to request a restructuring or segregation of certain responsibilities. If the PAIB is aware of a breach of the fundamental principles that the PAIB believes results in a material misrepresentation of fact or a violation of applicable laws and regulations, the PAIB needs to take steps to resolve the situation so that the PAIB acts with integrity and objectivity and does not subordinate professional judgment.

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

In our opinion the references to other sections of Part C of the Code that are included in paragraph 370.9 were helpful, and we support the inclusion of this paragraph.

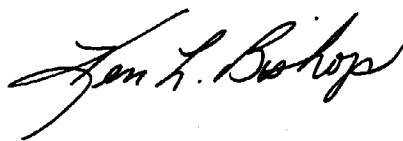
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Thank you for the opportunity to comment on the November 2014 *Exposure Draft on Proposed Changes to Part C of the Code Addressing Presentation of Information and the Pressure to Breach the Fundamental Principles*.

Sincerely,



Walter C. Davenport, CPA  
NASBA Chair



Ken L. Bishop  
NASBA President and CEO