

March 31, 2012

Mr. Ken Dakdduk
Chairman
International Ethics Standards Board for Accountants
By e-mail: janmunro@ifac.org

Dear Ken,

Re: Proposed Changes to the *Code of Ethics for Professional Accountants* Addressing Conflicts of Interest

Worldwide, more than one million professional accountants work in commerce, industry, financial services, education, and the public and not-for-profit sectors to support organizations in becoming more successful and sustainable. Professional accountants in business form a very diverse constituency, and can be found working as employees, consultants, and self-employed owner-managers or advisors.

The Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) values the opportunity to comment on the International Ethics Standards Board for Accountants (IESBA)'s Exposure Draft proposing changes to the *Code of Ethics for Professional Accountants* (the Code) addressing conflicts of interest. The PAIB Committee seeks to provide the perspective of professional accountants in business, which is also illustrated by the two following PAIB Committee publications:

[*Competent and Versatile: How Professional Accountants in Business Drive Sustainable Organizational Success*](#) (2011) focuses on establishing the expectations placed on professional accountants in business in terms of the roles and activities they will need to undertake, thereby extending beyond the traditional knowledge and skills that will be taught and tested during their professional education. It also emphasizes that professional accountants in business should uphold high ethical standards in accordance with the Code, which requires accountants to encourage an ethics-based culture in any employing organization.

[*Defining and Developing an Effective Code of Conduct for Organizations*](#) (2007) highlights the important role that professional accountants in business can play in driving and supporting organizational ethics and fostering a values-based organization. By applying a values-based approach and leading by example rather than relying only on written policies and rules, professional accountants can promote a culture that encourages employees to internalize the principles of integrity by allowing them to make appropriate decisions given specific circumstances.

More information about the PAIB Committee and its publications is available at www.ifac.org/paib.



General Comments

The PAIB Committee generally agrees with the objective of this project—to examine Sections 220 and 310 of the Code and revise them to provide more comprehensive guidance in identifying, evaluating, and managing conflicts of interest. In this light, the committee has the following general comments.

The Code rightly says in paragraph 300.4 that “a professional accountant in business has a responsibility to further the legitimate aims of the accountant’s employing organization,” and “this Code does not seek to hinder a professional accountant in business from properly fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles, as mentioned in part A of the Code, may be compromised.” In addition, paragraph 300.14 of the Code points to some of the safeguards in the work environment, such as the employing organization’s ethics and conduct programs. However, this safeguard can also be perceived as a threat as many professional accountants in business are required to follow their organization’s code of conduct or ethics, which, in the committee’s opinion, might not be perfectly aligned with the Code. The Code should therefore mention how to deal with this matter, for example by expanding or referring paragraph 300.5 on how professional accountants in business can further an ethics based culture in their organization, including a code of conduct in line with the provisions with the Code. The committee would like to emphasize, however, that the responsibility for setting the organization’s standards of integrity and the avoidance of conflicts of interest rests first and foremost with the leadership of the organization.

The Exposure Draft points out (on page seven) that conflicts of duty are dealt with elsewhere in the Code and can be deleted from section 310. We suggest that the relevant sections could be cross-referred to the new section 310. In addition, part of the extant section 310, such as the examples in paragraph 310.2, might usefully be transferred to other parts of the Code.

Comments on the specific questions outlined in the Exposure Draft follow.

Specific comments

Question 1. Do respondents find the description and examples of conflicts of interest helpful?

Description: The description of conflicts of interest is helpful. However, the proposed Code now has similar definitions of conflict of interest in three places (in parts A, B, and C). The IESBA could provide a general definition in part A, and provide only the specifics in parts B and C. Additionally, there are a few small editorial differences between the definitions in parts A and C that should be aligned.

With respect to the definition of “professional activities” performed by professional accountants in business (page five), the PAIB Committee recommends that the scope of activities could be further expanded to include professional accountants in business working in other capacities. For example, professional accountants in business who are working as a director of governance, risk manager, or compliance officer do not seem to be included. The term “management consulting” could be replaced with



“providing competent advice on a variety of business-related matters” in line with paragraph 300.2 of the Code.

The last sentence of paragraph 310.1 (the definition paragraph) seems superfluous, as the information is already sufficiently covered under the fundamental principles in part A, combined with the measures as required in paragraph 310.5 and subsequent paragraphs. Additionally, in the fourth bullet of section 310.2 it would be worthwhile adding the extension: “or has a substantial interest in.” Paragraph 310.8 seems out of place as it does not deal with conflicts of interest. Perhaps this could be moved to section 300?

Examples: The explanatory memorandum states under “Background” (page four) that the purpose of this project is to provide more comprehensive guidance on conflicts of interest. The PAIB Committee believes that the provision of appropriate examples is very useful.

With respect to the examples provided in 310.2, the PAIB Committee believes the example on dissolving partnership is more applicable for accountants in public practice. In addition, it is not necessarily a potential conflict of interest if, for example, the professional accountant is acting as a mediator between two parties. A minor final point on this paragraph: in section 310.2, the fourth bullet only refers to an accountant, as opposed to a professional accountant. We recommend that terminology is used consistently.

In addition, the PAIB Committee recommends IESBA further explore inclusion in this section, or elsewhere in the Code, of additional examples on bribes/personal gifts; financial dealings in institutions where the professional accountant in business has access to privileged or price sensitive information; and examples that specifically cover public sector situations. Examples of these include:

- Are there additional ethical issues for those who work on behalf the state?
- Should politicians who direct public services be identified as potential “parties?”

Question 2. Do respondents find the reasonable and informed third party standard appropriate?

No specific comments.

Question 3. Do respondents find the “reason to believe” threshold for network firms in evaluating conflicts of interest appropriate?

No specific comments.

Question 4. Do respondents find the guidance concerning safeguards to manage conflicts of interest and obtaining and documenting consent, as set out in paragraph 220.7, appropriate?

No specific comments.



Question 5. Do respondents concur with the three conditions set out in paragraph 220.8 required to be met before a professional accountant can proceed to accept or continue with an engagement when a conflict of interest exists but consent cannot be obtained because it would in itself breach confidentiality? Are the examples within paragraph 220.8 helpful?

No specific comments.

Question 6. Do respondents agree with the general requirement to identify, evaluate and manage conflicts of interests as set out in proposed Section 310 of the Code?

Yes, the PAIB Committee agrees with the general requirement for professional accountants in business to identify, evaluate, and manage conflicts of interests. In doing so, professional accountants in business could use the newly provided guidance in this Code on identifying, evaluating, and managing conflicts of interest. But above all else they should use their professional judgment. The committee recommends including the use of professional judgment in the revised version.

The PAIB Committee notes that professional accountants who work for smaller organizations in particular may have to find advice outside their organization when evaluating conflicts of interest. In that respect, it is useful that the Code allows for consultation with the relevant professional body in several places. The committee recommends that the IESBA, in its communication with the relevant professional bodies, continue emphasizing the importance of enabling this kind of consultation for professional accountants in business.

Question 7. Do respondents find the reasonable and informed third party test appropriate?

The concept of “reasonable and informed third party test” is, in the PAIB Committee’s view, somewhat theoretical. If this concept is intended to describe the professional accountants in business’ conscience, then the committee fears there might be large differences in mindsets and judgmental capabilities. Also, any assessment of conflict of interest will be influenced by regional and cultural differences. The same applies for the assessment of the concepts “reasonable” and “informed.” Therefore, the committee doubts whether these concepts will be applied consistently on a global basis.

Question 8. Do respondents find the conforming changes proposed for Sections 320 and 340 useful? Are they appropriate and adequate?

The PAIB Committee finds the conforming changes proposed for sections 320 and 340 generally useful, appropriate, and adequate save for the following comments.

Paragraph 320.6: It would be helpful if the IESBA could better define the phrase “an acceptable level.” As this phrase appears throughout the Code, perhaps this would need to be addressed for all parts of the Code as well.



Paragraph 340.2: The sentence “In some cases these may be awarded at multiples of base salary” should be deleted. The PAIB Committee feels that this statement may cause unnecessary confusion. The committee agrees that excessive multiples of salary should be discouraged, but notes that incentive based performance schemes are commonplace in many organizations. Alternatively, the IESBA should add the caution that this may further compound the self-interest threats, as noted in paragraph 300.8 of the current Code.

Paragraph 340.4: One safeguard to deal with potential conflicts arising from compensation arrangements that should be considered for specific mention in this section of the Code is the establishment of "open periods" for any share dealing by the professional accountant in business in addition to the second bullet point in this section.

Question 9. Do respondents agree with the impact analysis as presented? Are there any other stakeholders, or other impacts on stakeholders, that should be considered and addressed by the IESBA?

The PAIB Committee agrees with the impact analysis—that the guidance should improve the ability of professional accountants in business to avoid or manage a conflict of interest. In the case of professional accountants in business, all stakeholders of the employing organization could be considered a party as described in paragraph 310.1, as well as a third party as described in paragraph 310.3. Possibly, the stakeholder group "clients" could be added to the examples of "a party," as professional accountants in business can be found working as employees, but also as (external) consultants or advisors. In this respect, the kinds of examples mentioned in paragraph 220.2 may also be relevant to this group of professional accountants in business.

Please do not hesitate to contact me should you wish to discuss any of the matters raised in this submission. We also welcome further discussions on how the PAIB Committee can continue supporting the work of the IESBA.

Kind regards,

A handwritten signature in black ink, appearing to read "Roger Tabor". The signature is fluid and cursive, with a long horizontal stroke at the end.

Roger Tabor
Chairman, IFAC Professional Accountants in Business Committee