



April 15, 2015

Stavros Thomadakis
Chair
International Ethics Standards Board for Accountants

Submitted via the [IESBA website](#)

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

Dear Mr. Thomadakis,

The International Federation of Accountants® (IFAC®) [Professional Accountants in Business \(PAIB\) Committee](#) values the opportunity to comment on the International Ethics Standards Board for Accountants® (IESBA®)'s Exposure Draft proposing changes to Part C of the *Code of Ethics for Professional Accountants* (the Code) addressing presentation of information and pressure to breach the fundamental principles.

The PAIB Committee serves IFAC member bodies and professional accountants worldwide who work in commerce, industry, financial services, education, and the public and the not-for-profit sectors. It promotes and contributes to the value of professional accountants in business by increasing awareness of the important roles professional accountants play, supporting member bodies in enhancing the competence of their members, and facilitating the communication and sharing of good practices and ideas.

The PAIB Committee seeks to provide the perspective of professional accountants in business, which is also illustrated by the two key publications:

[Competent and Versatile: How Professional Accountants in Business Drive Sustainable Organizational Success](#) emphasizes the core belief professional accountants in business should uphold high ethical standards in accordance with the Code.

[Defining and Developing an Effective Code of Conduct for Organizations](#) highlights the important role that professional accountants in business can play in driving and supporting organizational ethics and fostering a values-based organization.

For the accountancy profession to deliver on its public interest mandate and bring about confidence in the global financial system, we have to recognize that the majority of professional accountants work in organizations alongside many other professionals. Ultimately, ethical behaviors and practices in organizations are facilitated by the quality of the governance arrangements of the organization itself, starting with the tone and the action at the top, and its own code of ethics and/or conduct. We believe that professional accountants can, and should, work within their organizations to influence ethical practices.

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



The PAIB Committee wishes to thank Committee member Ian Rushby, who has been an active participant in the [IESBA Task Force to Review Part C of the Code](#). This response reflects the views of the wider PAIB Committee, as discussed in its March 2015 meeting in Brussels. Key matters are highlighted in this cover letter, while answers to the specific questions are provided in the appendix.

General Comments on the Exposure Draft

The PAIB Committee believes that ethical behavior is fundamental to the effective functioning of professional accountants in business and the organizations for which they work.

Overall, the PAIB Committee agrees with the proposed changes to Part C of the Code as the changes aim to support and strengthen the position of the professional accountant in business. Presentation of information and pressure are indeed key ethical issues for professional accountants in business; therefore, this new guidance is timely and relevant. In their day-to-day work, it is not always clear to professional accountants in business that issues regarding the presentation of information or pressures to breach principles pose a potential risk of breaching the fundamental principles within the Code. The revised Part C helps to provide greater awareness of these issues but these would be further enhanced by IFAC member bodies complementing this guidance with additional awareness and/or CPD training for their professional accountants in business.

The issues addressed in the Exposure Draft might also be relevant for professional accountants other than those working in business. Therefore, the IESBA may consider, rearranging the provisions to make them more explicitly applicable to all professional accountants.¹ In addition, the PAIB Committee believes that explicitly addressing these issues is useful when communicating with external stakeholders and those who use or rely on the services of professional accountants as it clearly demonstrates what behavior or situations members of the profession will not tolerate.

As for the guidelines themselves, the IESBA might reconsider the use of long lists of examples as they might be interpreted as checklists or as the *only* items that are forbidden—i.e., if it is not explicitly forbidden, it is allowed. We, therefore, suggest limiting the use of examples and include wording such as “examples include, but are not limited to...” Finally, the text is, at times, difficult to read. To increase understandability and adoption, and to facilitate translation, a plain English review is recommended.

We hope you find our suggestions useful and constructive as you finalize the changes to the Code. Please do not hesitate to contact me should you wish to discuss any of the matters raised in this letter.

Yours sincerely,

A handwritten signature in black ink that reads 'Charles Tilley'.

Charles Tilley
Chair, IFAC Professional Accountants in Business Committee

¹ For example, as part of its current [project](#) to revise the structure of the Code.

**Comments on the specific questions outlined in the Exposure Draft**

Name: Charles Tilley Email: VincentTophoff@IFAC.org Stakeholder group: Professional Accountants in Business Committee Organization name: International Federation of Accountants (IFAC) Industry sector: Not-for-profit Geographical region: Global

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

Yes, the enhanced guidance is helpful but could be tightened-up and condensed.

For example:

- Revise the alternating use of the terms “professional accountant” and “professional accountant in business” to be consistent.
- Be consistent when using the term “Preparation and presentation of information” (should preparation be part of the term?)
- Revise the alternating use of “may” and “shall” or clarify meaning.
- Add: “examples include, but are not limited to...”
- 320.1: Unhelpful text that could be removed: “This information may assist stakeholders in understanding and evaluating aspects of the organization’s state of affairs and in making decisions concerning the organization.”
- 320.2 Are these examples necessary? Perhaps formulate examples positively instead of negatively? For example, the 3rd bullet point, “would the PAIB be liable when a regulator concludes that certain information is not (fully) presented in accordance to a reporting framework?”

If the IESBA retains the examples, perhaps add a fourth bullet point indicating that useful information for internal purposes may deviate from financial reporting frameworks, and make it clear that the professional accountant in business can and should present that information accordingly. For example:

- *Not presenting information based on a reporting framework that is not applicable to the use of the information. For example, information presented in accordance with external financial reporting standards may be insufficient and potentially distorting for many internal uses of internal financial reporting information.”*

Question 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?

Generally, yes. However, paragraph 320.3 is not a standard but rather a further explanation to a standard. There are also some textual ambiguities in this paragraph. For example, why wouldn't this apply to non-financial information? Also, why only discretion and not judgment? Additionally, is the term "manipulating income" strong enough to differentiate between making legitimate decisions to show results in the best light and decisions that are clearly intended to mislead? "Manipulate" is better than some previous terms used, such as manage, but the IESBA may consider replacing manipulate with misstate.

In addition, most of the examples raise questions:

- *"Selecting a particular accounting method among two or more alternatives permitted under the applicable financial reporting framework. For example, selection of one method from among alternative revenue recognition methods in order to manipulate income."* It is not clear how an organization selecting a permitted accounting method can be considered to be manipulating income. Furthermore, selection of the accounting method is typically the responsibility of the governing body of the organization and not the individual professional accountant.
- *"Determining the timing of transactions. For example, timing revenue transactions in order to manipulate income."* If an actual transaction is expedited or delayed, then the transaction has taken place at a later stage (e.g., in a following accounting period). For example, getting as many orders as possible in the books before the end of the reporting period is quite common and often initiated by the line functions and not necessarily the accounting function and the professional accountant. The accounting function simply records and presents transactions according to accounting standards, despite transactions being expedited or delayed for accounting reasons.
- *"Determining the structuring of transactions. For example, structuring financing transactions in order to manipulate the statement of financial position or the cash flow statement."* What if the structuring is in accordance with applicable laws and regulations?
- *"Determining disclosures. For example, omitting or obscuring information so that materially different items are not distinguished in order to mislead."* This example is difficult to understand. What are "materially different items?" Distinguished from what?

Main point

The main point, however, is that the fundamental principle of objectivity should guide professional accountants to use their judgment and discretion to determine how an event should be presented to best represent reality, rather than taking maximum advantage of the latitude provided by the rules to make the



outcome look better. One could view the desired presentation as the answer to the question “what should I do?” and a presentation that is just within the limits as the answer to the question “what can I do?” While legal structures are put in place to answer the latter question, ethical structures should lead one to ask, answer, and act in accordance with the first question. An additional disadvantage of pushing the limits is a much higher chance of a material misstatement, as only a small difference will push a reported number over the tolerable margin.

Question 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?

Paragraph 320.3 already covers the point that all the information that a professional accountant in business discloses should be fair and honest. However, the PAIB Committee applauds the IESBA for recognizing that a large body of work for professional accountants in business lies outside the preparation of external financial statements in accordance with relevant reporting standards. The PAIB Committee believes keeping this paragraph emphasizes this important point.

Question 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?

In principle, yes. However, what are “reasonable steps” in this regard? One cannot reasonably expect professional accountants in business, similar to external auditors, to perform file reviews, etc. A professional accountant in business working within an organization has to be able to rely on work done by his or her colleagues and the regular internal control procedures surrounding them, without having to “redo” those jobs. In many organizations, information for reporting is generated through enterprise resource planning (ERP) systems, which are populated throughout the organization and beyond. In order to comply with this requirement, the professional accountant in business would have to ensure the effectiveness of the entire internal control system.

The IESBA may wish to consider reformulating this provision in line with what can reasonably be expected from a profession accountant: Should they, through the normal course of their duties and professional responsibilities (such as professional skepticism), become aware that information provided by others may hamper the professional accountant’s ability to fulfill the obligations set out in paragraph 320.2, then the accountant should take steps to resolve the matter in line with paragraph 320.6.

Question 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 agree with the guidance in paragraph 320.6. Perhaps the IESBA could make it more explicit that the professional accountant, where possible, should not only *consult* but also first try to actually *follow* the internal policies and procedures to resolves such issues.

Similar to paragraph 370.5, paragraphs 320.6, 320.7, and 320.8, the IESBA may wish to consider including a provision that the professional accountant in business should be aware of the fundamental



principle of confidentiality. Under the circumstances described in these paragraphs, the professional accountant in business might have a legal or professional right or duty to disclose, in addition to distancing him/herself from the information or resigning. The professional accountant would then need to weigh requirements to communicate with third parties against their professional obligation of confidentiality. This is not to say the obligation of confidentiality outweighs a requirement or personal belief that a matter should be reported; rather, it is part of the decision making process.

Proposed Section 370

Section 370 is, in our opinion, not a standard but rather an explanation of a standard. However, the examples are very helpful.

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

We agree with the requirements in paragraph 370.1. However, we believe that such pressures are not only limited to professional accountants in business; they also apply to accountants in public practice. The IESBA may wish to reconsider the place/positioning of this section in the Code.

For better readability and understanding, the IESBA may consider slightly reordering the first sentence: When undertaking a professional activity. A professional accountant in business may face pressure that could create threats, for example, intimidation threats, to compliance with the fundamental principles ~~when undertaking a professional activity~~.

We also agree with the requirements in paragraph 370.2 but wonder if this requirement isn't already sufficiently captured under the fundamental principles themselves. Is there really a need to state this explicitly? Isn't it clear that this compromises the integrity principle?

We question, though, whether paragraph 370.3 is needed, as Section 370 speaks for itself. In addition, the example might not be the most useful one as it seems to slightly contradict "meeting internal targets and expectations" from paragraph 370.1, and also might lead to pressure to breach the fundamental principle of professional competence and due care.

Question 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 believe there is a balance to be struck here. On the one hand, examples may provide further guidance/clarity regarding a certain requirement. On the other hand, and especially when there is a long list of examples, they may also be seen as an exhaustive checklist. The IESBA may consider adding the words "examples include, but are not limited to..." In addition, many of the examples seem very obvious.

The eighth bullet point of paragraph 370.4 references "*pressure from superiors to perform a task without sufficient skills or training or without sufficient time.*" Many times, however, professional accountants in business deal with new areas. It is their responsibility to gain appropriate knowledge or bring in experts if necessary. The IESBA may consider reformulating this example to: "*Pressure from superiors to perform a*



task without sufficient skills or training and not being allowed the time to obtain the skills or consult with appropriate experts.”

The same bullet point 370.4 speaks about performing a task without sufficient time as an example of a threat that could lead to a breach of professional standards. This example is too simplistic as many employees in any profession face pressure to meet unreasonable deadlines at times but that doesn't necessarily mean it will lead to a breach of professional standards. The point needs to better differentiate between typical time pressures and time pressures that may be deliberately intended to make it impossible to meet professional standards.

Question 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 many instances there is no clear distinction between pressures that could result in a breach of fundamental principles and routine pressures that exist in the workplace. This might also be area where most challenges originate in practice: pressure slowly building up from routine to unacceptable. Instead of making this distinction, the IESBA may consider emphasizing how these pressures relate to each other.

Question 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?

Generally yes, although the bullet points could be slightly reordered making them more in line how a typical escalation works in most cases and/ organizations (restructuring or segregation typically being a last or near last resort).

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

Yes, but perhaps the IESBA could combine this paragraph with the examples in 370.4.