Report Back – Applicability

Objectives of Agenda Item

1. To note the report back on the September 2017 CAG discussions relating to the revisions to clarify the applicability of provisions in Part C of the extant Code to professional accountants in public practice (PAPPs).

Project Status and Timeline

2. Appendix 1 provides the project history for the Applicability project.

3. In 2012, IESBA commenced work with the aim of exploring whether the strengthening of Part C is needed to better promote ethical behavior by professional accountants in business (PAIBs). In March 2013, the IESBA approved the Review of Part C of the Code Project (Part C project) to revise Part C of the extant Code in two phases:

   a) Phase 1, which addressed mainly the topics of pressure to breach the fundamental principles, and the preparation and presentation of information. The IESBA completed Phase 1 in December 2015 with the approval of the close-off document Changes to Part C of the Code Addressing Preparation and Presentation of Information, and Pressure to Breach the Fundamental Principles (Part C close-off document). This includes revisions to Section 320, a new Section 370 and conforming amendments to other sections of Part C. Those revisions were drafted in accordance with the structure and drafting conventions of the extant Code.

   b) Phase 2 which involves a review of the provisions relating to inducements in the extant Code.

Applicability

4. As part of its review of extant Part C, the IESBA resolved to address questions that arose during its deliberations in Phase 1 of the project about the applicability of the provisions in Part C to PAPPs, i.e., professional accountants in firms who provide professional services to clients. In January 2017, the IESBA released Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice (Applicability ED) to clarify the circumstances in which the revised Phase 1 provisions should also apply to PAPPs.

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1 Extant Part C – Professional Accountants in Business
2 Extant Part C, Section 320, Preparation and Reporting of Information
3 Extant Part C, Section 370, Pressure to Breach the Fundamental Principles
5. Forty comment letters were received from various respondents, including regulators and audit oversight bodies, national standard setters, IFAC member bodies, other professional bodies, and firms. There was widespread support from respondents for the objective of proposals to clarify the circumstances in which the provisions in Part C of the extant Code should apply to PAPPs. The IESBA revised its proposals to address the significant matters raised by respondents to the Applicability ED, taking into account the input provided by the CAG representatives during its September 2017 meeting.

Changes Arising from Structure of the Code and Safeguards Projects

6. As part of its Structure of the Code (Structure) project which involved restructuring the provisions in the Code for greater understandability and usability, the IESBA issued for exposure in January 2017, *inter alia*, the proposed restructured text for the revised extant Part C provisions (see Part 2 of the January 2017 Exposure Draft, *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2*).

7. The IESBA finalized its Structure and Safeguards projects in December 2017 and approved the final text of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the “restructured Code”) which includes:
   
   (a) Structural and drafting enhancements developed under the Structure of the Code (Structure) project;
   
   (b) Revisions to the provisions pertaining to safeguards in the Code, including enhancements to the conceptual framework, developed under the Safeguards project;
   
   (c) Revisions to clarify the applicability of the provisions in Part C ⁴ of the extant Code to professional accountants in public practice (PAPPs), developed under the Applicability project; ⁵ and
   
   (d) New application material relating to professional skepticism and professional judgment, developed under the Professional Skepticism (short-term) project. ⁶

   **CAG Member Organizations are strongly encouraged to join the IESBA in promoting awareness of the revised and restructured Code to support its effective implementation.**

8. Subject to Public Interest Oversight Board (PIOB) approval, the restructured Code is expected to be released by early April 2018. In the interim, to facilitate early implementation activities, the text of the restructured Code, is available at: [www.ethicsboard.org/restructured-code](http://www.ethicsboard.org/restructured-code).

IESBA Interaction with CAG

9. This Report Back serves as the final update to the CAG Representatives on this project. There are

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⁴ Extant Part C – Professional Accountants in Business

⁵ Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, Section 120, *The Conceptual Framework*, paragraph R120.4; and Part 3 – Professional Accountants in Public Practice, Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*, paragraphs R300.5 to 300.5 A1

⁶ Part 1, Section 120, paragraphs 120.5 A1, 120.5 A2 and 120.13 A1 to 120.13 A2
Review of Part C of the Code - Applicability

IESBA CAG Meeting (March 2018)

no issues being raised at this time, as the project is now finalized.

Report Back on September 2017 CAG Discussion

10. Below are extracts from the draft minutes of the September 2017 CAG meeting\(^7\) and an indication of how the project Task Force and/or IESBA has responded to the CAG’s comments.

<table>
<thead>
<tr>
<th>Matters Raised</th>
<th>Task Force/IESBA Response</th>
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<tr>
<td><strong>Matters Raised</strong></td>
<td><strong>Task Force/IESBA Response</strong></td>
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<tr>
<td>NATURE OF RESPONDENTS’ COMMENTS</td>
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<td>Dr. Manabat asked whether, on the whole, the proposed changes to the Code were substantive or editorial in nature.</td>
<td>Ms. Agélii explained that the aim of the project was to clarify the statement in the extant Code to the effect that PAPPs may in some circumstances find the provisions in Part C relevant. So, in that regard, the proposed changes were more of a clarification. Dr. Thomadakis noted that the Board had already revised Part C substantively over the last three years. Mr. Siong added that the proposed text in the Applicability ED went beyond clarification because it introduced a new requirement for PAPPs to consider and apply the relevant provisions in extant Part C, for example, the provisions relating to NOCLAR and pressure to breach the fundamental principles.</td>
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Matter for CAG Consideration

11. The CAG is asked to note the report back.

Material Presented – FOR IESBA CAGs REFERENCE PURPOSES ONLY

[link only] Approved text for the [Restructured Code](#)

\(^7\) The draft September 2017 minutes will be approved at the March 2018 IESBA CAG meeting.
## Appendix 1

### Project History

**Project: Applicability Project (Part of the Review of Part C of the Code Project)**

### Summary

<table>
<thead>
<tr>
<th>Event</th>
<th>CAG Meeting</th>
<th>IESBA Meeting</th>
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<tr>
<td>Review of Part C of the Code Project (Phases 1 and 2) commencement</td>
<td>April 2013</td>
<td>March 2013</td>
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<td>Development of proposed international pronouncement (up to exposure)</td>
<td>April 2013</td>
<td>January 2015</td>
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<td>September 2016</td>
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<td>March 2017</td>
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<td>Consideration of Respondents’ Comments on the Exposure Draft</td>
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<td>Approval</td>
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