

Review of Part C of the Code – Summary of Comments on Applicability Exposure Draft, Issues and Task Force Proposals

Introduction

1. In January 2017, the Exposure Draft (ED), [*Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice*](#) (Applicability ED) was released for comment with a deadline for responses of April 25, 2017.
2. This paper summarizes the significant issues raised by respondents to the Applicability ED and the Part C Task Force's (TF's) proposals taking into account input from the IESBA during their March and June 2017 meetings. A mark-up with revisions to the Applicability ED is included in Appendix 1 to this paper and will form part of the Task Force's proposals that will be considered by the IESBA during its September 2017 meeting.
3. The paper is organized as follows:
 - Overview of responses and general comments
 - Issues and TF proposals
 - Clarity and scope of the requirement paragraphs
 - Relevance of the example in paragraphs 120.4 A1 and 300.5 A1
 - Location of the applicability paragraphs
 - Other matters
4. For ease of reference, throughout this document reference is made to extant Parts B and C except for the discussion about the location of the proposals in the proposed restructured Code. Further, the term "applicability paragraphs" will be used to refer to all four paragraphs of the Code under exposure.

Overview of Responses and General Comments

5. Comment letters were received from 40 respondents, as listed in Appendix 2 to this paper. The respondents to the Applicability ED comprise the following:

Category of Respondent	Number of Responses	Percentage
Regulators and Oversight Authorities (Regulators)	1	3%
National Standard Setters (NSS)	2	5%
Firms	8	20%
IFAC Member Bodies (MBs) ¹ and Other Professional Organizations	29	72%
Total	40	100%

¹ Certain IFAC Member Bodies also hold the dual role of ethics standard setter in their jurisdictions.

General Support for the Applicability Paragraphs

6. Respondents² are generally supportive of the objective of proposed provisions in clarifying the circumstances in which the provisions in Part C should also apply to PAPPs. The respondents also support the holistic approach adopted by the IESBA in developing its proposals.
7. Some respondents³ questioned the benefits for PAPPs to be familiar with the new material and expressed general concerns about the increasing complexity of the Code and the burden placed on PAPPs in keeping abreast of the relevant laws and regulations as well as other standards and codes.
8. The TF is of the view that it is important the same expectations be placed on PAPPs when dealing with ethical issues.

Issues and TF Proposals

Clarity and Scope of Proposed Paragraphs R120.4 and R300.5

Applicable Circumstances

9. The objective of the Applicability project is to clarify the circumstances in which the provisions in Part C should also apply to individual PAPPs as they may face ethical issues similar to those encountered by PAIBs. The TF reaffirmed its support for the Board's position described in the explanatory memorandum to the Applicability ED that PAPPs are required to consider the context within which an ethical issue has arisen or might arise, and then apply the relevant provisions in the Code, whether in Part B or Part C.
10. The majority of respondents did not raise any issues with respect to the proposed paragraphs R120.4 and R300.5 (requirement paragraphs) under exposure. In this regard, the TF draws the IESBA CAG's attention to the following key comments from respondents and its responses that draw from previous Board deliberations:
 - Some respondents suggested that the Requirement paragraphs could be improved if they required all professional accountants to consider the provisions in the whole Code (including Part C) and comply with all the requirements applicable to the particular circumstances.⁴

The TF felt that the above respondents' suggestion does not add to what is already in the Code⁵ and may inadvertently draw the focus away from the objective of the Applicability project.
 - A respondent noted that the first sentence in the Requirement paragraphs may be inaccurate because the phrase "facing an ethical issue" implied that the professional accountant has

² **Regulators:** UKFRC; **NSS:** APESB, NZAuASB; **Firms:** BDO, CHI, DTT, EYG, GTI, KPMG, PwC, RSM; **MBs:** ASSIREVI, ATT, ACCA, AE, AICPA, CAANZ, CNCC & CSOEC, CPAA, EXPERTsuisse, FAR, FSR, HKICPA, ICAEW, ICAN, ICAP, ICAS, IDW, IMCP, ISCA, JICPA, KICPA, MIA, MICPA, NBA, SAICA, SMPC, WPK; **Other:** EFAA

³ **MBs:** IDW, SMPC, WDK

⁴ **MBs:** APESB, CPAA, UKFRC; **Firms:** PwC

⁵ Proposed restructured Code, Part 1, Section 100, *Complying with the Code*, paragraph 100.3 states:

"A professional accountant shall comply with the Code [emphasis added]. There might be circumstances when laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code."

already encountered a specific ethical issue that needs to be addressed.⁶

The TF considers all matters relating to threats to compliance with the fundamental principles as ethical issues. In addition, the TF has revised the first sentence of the Requirement paragraphs by replacing the word “facing” with “dealing with” and “occurred” with “arisen or might arise” to clarify that a professional accountant is required to consider the context whether an issue has arisen or not (see Appendix 1 to this paper).

- A few respondents noted that the proposed wording in the Requirement paragraphs does not cover situations where a professional accountant serves as both a PAPP and a PAIB in multiple roles.⁷

Upon further reflection, the TF agreed that:

- A professional accountant should already be aware of the requirements and application material in Part C when performing the role of a PAIB.
- The objective of the project is to clarify those circumstances where Part C is applicable to individual PAPPs, and the focus of the proposed text is on matters relating to the PAPP’s employment or ownership relationship with a firm. In this regard, the Task Force has reinstated the phrase “pursuant to the accountant’s employment or ownership relationship” that was included in the Applicability ED.
- A respondent suggested that the Requirement paragraphs did not clearly explain the circumstances that may trigger the applicability of the provisions in Part C. There was a view that the phrase “pursuant to the accountant’s employment” as used in the Applicability paragraphs:
 - May be interpreted as applying to all professional activities that are undertaken by professional accountants.
 - Raises questions about whether the employment and client contexts and relationships are interdependent and not in distinct realms. Feedback on the Applicability ED suggests that there are some who believe that a professional accountant’s client engagement and employment relationship are in a web of influence that should be considered holistically.⁸

The TF agrees that matters relating to a PAPP’s client engagement and a PAPP’s employment relationship in a firm are often interrelated. Therefore, the TF is of the view that Part C is applicable to circumstances that may relate to or have an impact on a PAPP providing professional services to client. For instance, the TF believes that the Part C provisions are applicable when a PAPP is facing pressure from an engagement partner to inaccurately report chargeable hours for a client engagement. Accordingly, the TF believes that the phrase “pursuant to the accountant’s employment or ownership relationship” sufficiently covers this point and that further explanation about the context of the activity is not warranted.

11. While all the sections in Part C primarily deal with matters internal to the employing organization, the TF has identified the following two situations where the Applicability paragraphs may require PAPPs

⁶ **Firms:** PwC

⁷ **MBs:** AICPA, NBA

⁸ **MBs:** CPAA

to directly apply Part C to when they perform professional services for clients or to client relationships:

- (a) The first situation relates to the material in proposed Section 220⁹ which covers the preparation and presentation of information inside or outside the organization and would logically include those for a PAPP's client.
 - (b) The second relates to the material in proposed Section 270¹⁰ which states that pressure exerted on a professional accountant might come from an "external individual or organization such as... a customer." The TF notes that it may be argued that a PAPP's client is his or her customer for the purpose of Section 270.
12. Both Sections 220 and 270 deal with situations not only within the employing organization but also outside the organization. Accordingly, it may be argued that, without express limitations in the Applicability paragraphs to the contrary, these sections should also apply to when PAPPs are performing professional services for clients and to their client relationships. It is of note that there is no corresponding material in Part 3 to address these situations.
13. The TF extensively deliberated whether the Applicability paragraphs should also apply to these two situations. The TF concluded that the way the proposed Applicability paragraphs are currently drafted would mean that these sections would directly apply to when PAPPs are performing professional services for clients and to their client relationships.
14. The TF acknowledges that some respondents might not have considered such direct application of Part C to the provision of client services or to client relationships to fall within the scope of the Applicability paragraphs. This is particularly in light of paragraph 17 of the explanatory memorandum which states that "the objective of the applicability paragraphs ... [is] to indicate how PAPPs might discharge their ethical duties in situations where they are not providing services to clients...."

Individual PAPPs

15. Some respondents have commented that the scope of the requirement paragraphs may have the unintended consequences of being overly expansive due to the Code's definition of PAPP. It was suggested that as the current definition includes "a firm of professional accountants in public practice", without any express limitation to the contrary, an individual who is not a professional accountant working in such a firm will also be required to follow Part C. It was suggested that such consequences may cause undue burden to firms.¹¹ There was a concern regarding lawyers working in a firm who are already subject to their own professional code of conduct and ethical requirements.¹²
16. During its June 2017 meeting, the IESBA agreed that the scope of the Requirement paragraphs should be restricted to those PAPPs who are individuals.

⁹ Part 2 of the proposed restructured Code, Section 220, *Preparation and Presentation of Information*, paragraph 220.4 A1

¹⁰ Part 2 of the proposed restructured Code, Section 270, *Pressure to Breach the Fundamental Principles*, paragraph 270.4 A1

¹¹ **MBs:** AE, FSR, ICAEW, ICAS, DTT, PwC

¹² **MBs:** PwC

Contractors

17. A few respondents¹³ highlighted that the explanatory memorandum had mentioned professional accountants who act as contractors of organizations, but observed that this type of relationship is not explicitly captured by the phrase “the accountant’s employment or ownership relationship with the firm” in the Requirement paragraphs. Those respondents were of the view that contractors should be included in the scope of the Applicability paragraphs.
18. The TF agrees that the scope of the Requirement paragraphs should cover individuals who are professional accountants working as contractors for firms, and that such relationships should be expressly stated in the Applicability paragraphs. In this regard, the TF has identified the following three options to acknowledge contractual relationships in the proposals:

Option	Suggested Revisions
1	<ul style="list-style-type: none"> Adding the term “contractor” to paragraphs R120.4 and R300.5 and other relevant guidance material (i.e., paragraph 200.4 of the restructured Code and paragraph 4 of the Guide to the Code) as follows: “... the accountant’s employment, <u>contractor</u> or ownership relationship with the firm”
2	<ul style="list-style-type: none"> In a new application material paragraph immediately after the Requirement paragraphs as 120.4 A1 and 300.5 A2 to state that: “...The employment or ownership relationship between a professional accountant in public practice and the firm includes a contractor relationship.”
3	<ul style="list-style-type: none"> In Part 2 of the Code only by adding a sentence at the end of paragraph 200.4 that states: “...<u>An accountant’s employment or ownership relationship with the firm includes a contractor relationship.</u>”

19. The TF is recommending to the IESBA option 1 as its preferred option. The TF notes that while both options 1 and 2 clarifies that a contractor relationship falls within the scope of the Applicability paragraphs, option 1:
- Is more concise and places less focus on this one type of relationship with a firm.
 - Avoids giving the contractor relationship too much prominence by inserting a new paragraph (i.e., option 2), and the risk of users of the Code failing to make an immediate connection if it is too far removed from the Applicability paragraphs (i.e., option 3), particularly if they are reading Part 3 of the restructured Code.

Applicability of Extant Part B to PAIBs

20. The TF acknowledges that there may be instances where extant Part B (i.e., Part 3 of the restructured Code) should also be applicable to PAIBs who perform professional services for clients when employed by an organization that is not a firm.
21. However, the TF is of the view that this matter falls outside the scope of the Applicability project. The

¹³ MBs: ICAS, ICAEW

TF also believes that careful analysis is needed to determine whether and how the Code should address this matter and to understand the implications of any potential changes for stakeholders. The TF therefore recommends that this matter be considered as part of the Board's future deliberations on its Strategy and Work Plan.

Other Editorial Refinements

22. In addition to the revisions discussed above, the TF has also made minor editorial refinements to the proposed text in the Applicability ED to improve the flow and enhance readability.

Illustrative Examples

23. While most respondents did not raise any concerns about the example that was provided in the Applicability ED, a few respondents felt that it was unduly limited and narrow. In light of this, the TF agreed to expand the guidance through four illustrative examples (see Agenda Item 5-B). The TF believes that these examples provide a better balance and better illustrate the diverse types of situations that PAPPs may encounter where the provisions in Part C might be applicable. In doing so, the TF has given appropriate consideration to all the relevant material in proposed Part 2 and ordered the examples consistent with the order in which the relevant sections appear in the restructured Code.

Location of the Applicability Paragraphs and Other Guidance Material

24. In general, respondents either expressed their support or did not raise any concerns about the proposed location of the Applicability paragraphs in Sections 120 and 300.
25. During its deliberations at the June 2017 meeting, IESBA supported the suggestion¹⁴ of removing the application material in Part 1 and agreed that it will help avoid repetition in the Code (See Appendix 1).
26. The TF does not propose any other changes to the proposed location of the Applicability paragraphs in Sections 120 and 300.
27. Paragraph 200.4 in Part 2 of the proposed restructured Code has already expanded the meaning of term "professional accountant" in the context of Part 2 to include PAPPs performing professional activities pursuant to their employment or ownership relationship with their firm.¹⁵ The same paragraph also makes reference to the Applicability paragraphs. Conforming changes have been made to this paragraph to align with the revised Requirement paragraphs.
28. The TF has revised the placeholder in paragraph 4 of the Guide to the Code to clarify the applicability of Part C to PAPPs (see paragraph 4 of the Guide to the Code in **Agenda Item C-2**).

Other Matters

Structure of the Code

29. Some respondents have recommended that the IESBA consider whether there is merit to having

¹⁴ **MBs:** CNCC & CSOEC

¹⁵ Proposed restructured Code, Part 2, Section 200, *Applying the Conceptual Framework – Professional Accounts in Business*, paragraph 200.4

separate provisions for PAIBs in Part 2 and for PAPPs in Part 3. Those respondents questioned whether the provisions in the Code might be clearer and more understandable if the material were presented in a manner that does not focus on professional accountants' roles and responsibilities. For example, it was suggested that the titles of Part 2 and Part 3 be revised.¹⁶ The TF liaised with the Structure TF to develop a response to those respondents' comments.

30. The Part C and Structure TFs believe that the approach taken in the restructured Code is appropriate and that the titles of proposed Part 2 and Part 3 in Structure ED-2 should be retained.
31. The TFs considered a number of options in formulating their views on this matter, but ultimately agreed to recommend no changes. This is because they believe that a reorganization of the material in the proposed restructured Code, or a change in titles of Parts 2 and 3:
 - (a) May have the unintended consequence of de-emphasizing the provisions in the Code for PAIBs.
 - (b) Would require broader consideration of whether the material in the PAPP section of the Code should apply to PAIBs, a matter that is outside the scope of this project.
32. The Part C TF is also of the view that a consideration of changes to respond to those respondents' concerns might also require consideration of whether there is a need for the Applicability paragraphs.

Definitions of PAPP and PAIB

33. Some respondents pointed out that there is a lack of clarity about how and whom Part C could apply to directly or indirectly and that the confusions stems from a historic concerns about the definitions of PAPP and PAIB.¹⁷ Whilst those respondents did not believe this lack of clarity would impact the intended objective of the proposals, it was suggested that the IESBA revisit these definitions as soon as possible.
34. The TF is of the view that concerns about the definitions of PAPP and PAIB are outside the scope of the Applicability project. The TF is also of the view that the concerns raised about the definition will not impact on the intended results of the Applicability paragraphs. The TF has recommended to IESBA that it includes this issue as a matter for future consideration.

Matters for CAG Consideration

1. Representatives are asked for views about the TF's responses to the respondents comments mentioned above; and whether they agree with the proposed revisions to the Applicability ED in Appendix 1.

¹⁶ **MPs:** APESB, CPAA, CPAC, FAR, UKFRC

¹⁷ **MPs:** EXPERTsuisse; **Firms:** PwC

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND THE CONCEPTUAL FRAMEWORK

Section 120

The Conceptual Framework

...

R120.4 When ~~facing-dealing with~~ an ethical issue, ~~a-the~~ professional accountant shall consider the context ~~withinin~~ which the issue has ~~occurredarisen or might arise~~. Where ~~an individual who is~~ a professional accountant in public practice is performing professional activities pursuant to the accountant's employment, ~~contractor~~ or ownership relationship with the firm, ~~the individual shall comply with the there might be requirements and application materialprovisions~~ in Part 2 that are ~~also~~-applicable to ~~these-these~~ circumstances. ~~If so, the professional accountant in public practice shall comply with the relevant provisions.~~

~~120.4 A1 For example, where a professional accountant in public practice is pressured by an engagement partner to underreport chargeable hours for a client engagement in order to artificially enhance engagement profitability which might impact the partner's remuneration, the requirements and application material set out in Section 270 would be relevant.~~

PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Section 300

Applying the Conceptual Framework – Professional Accountants in Public Practice

...

R300.5 When ~~facingdealing with~~ an ethical issue, ~~a-the~~ professional accountant shall consider the context ~~withinto~~ which the issue has ~~occurredarisen or might arise~~. Where ~~an individual who is~~ a professional accountant in public practice is performing professional activities pursuant to the accountant's employment, ~~contractor~~ or ownership relationship with the firm, ~~the individual shall comply with the there might be requirements and application materialprovisions~~ in Part 2 that are ~~also~~-applicable to ~~these-these~~ circumstances. ~~If so, the professional accountant in public practice shall comply with the relevant provisions.~~

300.5 A1 ~~Examples of situations in which the provisions in Part 2 might apply to a professional accountant in public practice include when:~~

- ~~• Facing a conflict of interest such as being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.~~
- ~~• Preparing or presenting information such as preparing financial information in relation to the profitability of the accountant's client service division. The requirements and application material set out in Section 220 apply in these circumstances.~~

- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- For example, where a professional accountant in public practice is pressured by Facing pressure such as being pressured by an engagement partner to underreportreport inaccurately chargeable hours for a client engagement, in order to artificially enhance engagement profitability which might impact the partner's remuneration, tThe requirements and application material set out in Section 270 apply in these circumstanceswould be relevant.

PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

Section 200

Applying the Conceptual Framework – Professional Accountants in Business

...

200.4 In this Part, the term “professional accountant” refers to:

- (a) A pProfessional accountants in business; and
- (b) An individual who is a Pprofessional accountants in public practice when performing professional activities pursuant to the professional accountant's employment, contractor or ownership relationship with their firm. More information on when Part 2 might be is applicable to professional accountants in public practice is set out in R120.4, 120.4 A1, R300.5 and 300.5 A1.

Appendix 2

List of Respondents to Applicability ED

Note: Members of the Monitoring Group are shown in bold below.

#	Abbrev.	Respondent (40)	Region
Regulators and Oversight Authorities (1)			
1.	UKFRC	United Kingdom Financial Reporting Council	EU
National Standard Setters (2)			
2.	APESB	Accounting Professional & Ethical Standards Board Limited-Australia	AP
3.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
Firms (8)¹⁸			
4.	BDO*	BDO International Limited	GLOBAL
5.	CHI	Crowe Horwath International	GLOBAL
6.	DTT*	Deloitte Touche Tohmatsu Limited	GLOBAL
7.	EYG*	Ernst & Young Global	GLOBAL
8.	GTI*	Grant Thornton International Ltd	GLOBAL
9.	KPMG*	KPMG IFRG Limited (Network)	GLOBAL
10.	PwC*	PricewaterhouseCoopers International Limited	GLOBAL
11.	RSM*	RSM International	GLOBAL
IFAC Member Bodies and Other Professional Organizations (29)¹⁹			
12.	ASSIREVI	Associazione Italiana Revisori Contabili	EU
13.	AAT	Association of Accounting Technicians	EU
14.	ACCA	Association of Chartered Certified Accountants	GLOBAL
15.	AE	Accountancy Europe	EU
16.	AICPA	American Institute of Certified Public Accountants Auditing Standards Board Professional Ethics Executive Committee	NA
17.	CAANZ	Chartered Accountants Australia and New Zealand	AP
18.	CNCC	Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables	EU
19.	CPAC	Chartered Professional Accountants of Canada (CPA Canada) Public Trust Committee	AP
20.	CPAA	CPA Australia	AP

¹⁸ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies.

¹⁹ Certain IFAC Member Bodies hold the dual role of ethics standard setter in their jurisdictions.

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#	Abbrev.	Respondent (40)	Region
21.	EFAA	European Federation of Accountants and Auditors for SMEs	EU
22.	EXPERTsuisse	Swiss Expert Association for Audit, Tax, and Fiduciary	
23.	FAR	FAR (Institute for the Accountancy Profession in Sweden)	EU
24.	FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants)	EU
25.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
26.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
27.	ICAN	Institute of Chartered Accountants of Nigeria	MEA
28.	ICAP	Institute of Chartered Accountants of Pakistan	AP
29.	ICAS	Institute of Chartered Accountants of Scotland	EU
30.	IMCP	Instituto Mexicano de Contadores Públicos	NA
31.	IDW	Institut der Wirtschaftsprüfer	EU
32.	ISCA	Institute of Singapore Chartered Accountants	AP
33.	JICPA	Japan Institute of Certified Public Accountants	AP
34.	KICPA	Korean Institute of Certified Public Accountants	AP
35.	MIA	Malaysian Institute of Accountants	AP
36.	MICPA	Malaysian Institute of Certified Public Accountants	AP
37.	NBA	Royal Netherlands Institute of Chartered Accountants	EU
38.	SAICA	South African Institute of Chartered Accountants	MEA
39.	SMPC	IFAC Small and Medium Practices Committee	GLOBAL
40.	WPK	Wirtschaftsprüferkammer (German Public Accountants MB)	EU