

Promoting the Role and Mindset Expected of Professional Accountants— Issues and Task Force Proposals

Note to IESBA Meeting Participants

This agenda paper should be read in conjunction with:

- **Agenda Item 2-B** (the revised proposed text marked up from the March 2020 turnaround version)
- **Agenda Item 2-C** (Schedule of IESBA Comments and Task Force Responses)

Introduction

1. In July 2019, the IESBA released the Exposure Draft (ED), [*Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*](#). As stated in the Explanatory Memorandum to the ED, the proposed revisions, amongst other matters:
 - Highlighted the wide-ranging role of the accountancy profession in society and the relationship between compliance with the Code and a professional accountant's responsibility to act in the public interest.
 - Included enhancements to the fundamental principles of objectivity and professional behavior.
 - Strengthened the fundamental principle of integrity to include the determination to act appropriately in difficult situations.
 - Included some enhancements that reflect the impact of technology.
 - Required all professional accountants to have an inquiring mind when applying the conceptual framework.
 - Highlighted the importance of being aware of bias and having the right organizational culture.
2. The IESBA received a total of 46 comment letters to the ED. Of note:
 - Overall, the respondents are generally supportive of the objectives of the project and the proposals in the ED. In this regard, the IESBA also received strong support from one Monitoring Group member (Basel Committee on Banking Supervision):

“...The Committee agrees with the IESBA’s proposals in the ED, in particular the proposal to require a professional accountant to behave in a manner that is consistent with the profession’s responsibility to act in the public interest and the concept of an inquiring mind...”
 - Key areas that drew the most significant comments and calls for further consideration by the IESBA related to the use of the terms “public interest” and “ethical values” as well as a PA’s responsibility to act in the public interest in the proposed material in Section 100¹ and Subsection 115² (ED Questions 1 and 3).

¹ Section 100, *Complying with the Code*

² Subsection 115, *Professional Behavior*

- Whilst there was overall support for new material in the Code to explain the mindset PAs should have when conducting professional activities, respondents have suggested further changes ranging from refinements to the concept of “inquiring mind” to changing that term to one they perceived would be stronger (ED Question 5).
 - Respondents were generally supportive of the revisions relating to the concept of “determination to act appropriately,” technology, bias and organizational culture (ED questions 2, 4, 6 and 7).
3. At its March 2020 meeting, the IESBA Consultative Advisory Group (CAG) was generally supportive of the Task Force’s responses to the comments received and its proposals to address such comments.

Recap of March 2020 IESBA Discussions

4. The IESBA was generally supportive of the Task Force’s responses and proposals.
5. Amongst other matters, the following were raised by IESBA participants:
- A few IESBA participants queried if the term “ethical concepts” used to replace “ethical values” in Section 100 sufficiently explains the IESBA’s view that for professional accountants to display the ethical behavior expected of them, they need to comply not only with the letter of the Code but also its spirit. An IESBA member also expressed the view that “ethical concepts” might be perceived by some as a re-articulation of the Code’s fundamental principles.
 - Whilst acknowledging the difficulty in defining public interest in the Code, a few IESBA participants preferred more clarity of what is involved with “acting in the public interest”. The Task Force Chair pointed out that although the concept of public interest has been a long-standing concept, previous attempts to define it have failed. This is primarily because what constitutes the public interest will vary from time to time depending on the particular circumstances, public expectations, and changes in legislation and regulation.
 - Some IESBA participants, including the PIOB observer, did not support the Task Force’s proposals to replace “Behave in a manner that is consistent with the profession’s responsibility to act in the public interest” with “consider... the public interest” in paragraphs 110.1 A1 (e) (i)³ and R115.1⁴. They felt that “consider” would not convey strongly enough the importance of the professional accountant’s role with respect to their public interest responsibility. Other alternatives suggested include “recognize”, “acknowledge” and “take into account”.
 - IESBA members were supportive of replacing the phrase “the determination to act appropriately” with “having strength of character to act appropriately” in the proposed material on the fundamental principle of integrity.
 - IESBA members were generally supportive of the Task Force’s revisions to the proposed material on the concept of “having an inquiring mind”, including the clarification that the concept involves professional accountants not accepting information at face value but rather needing to duly consider the source, relevance and sufficiency of the information obtained in order to inform the next steps. Some IESBA participants also suggested refinements to the material on the

³ Section 110, *The Fundamental Principles*

⁴ Subsection 115, *Professional Behavior*

relationship between having an inquiring mind and exercising professional skepticism in the context of performing audits, reviews and other assurance engagements.

- With respect to the material on bias in section 120⁵, the IESBA members preferred the alternative description of groupthink presented by the Task Force.
 - There was a question as to whether the term “whistle-blower” in the Task Force’s revised proposals on organizational culture was too colloquial for the Code. It was noted that the term “whistle-blowing” is already used in the extant Code in the Section on responding to non-compliance with laws and regulations (NOCLAR).
 - The IESBA supported the Task Force’s proposed new application material that highlights the role of individual professional accountants to promote an ethics-based culture in their organizations.
6. For other key comments raised by participants during the March 2020 IESBA and CAG meetings as well as the Task Force responses, refer to [Agenda Item 2C.2](#) of the March 2020 IESBA meeting.

Revisions to March 2020 Turnaround Version

7. Having deliberated the comments received from the March 2020 IESBA and CAG meetings, the Task Force developed and circulated the March 2020 turnaround version (mark-up to the March 2020 posted version) for comment by IESBA members. See [Agenda Item 2C.1](#) of the March 2020 IESBA meeting.
8. The Task Force developed the revisions to the March 2020 turnaround version in **Agenda Item 2-B** following:
- Review of comments received from IESBA participants (**Agenda Item 2-C**);
 - Discussions with the IAASB’s Professional Skepticism Working Group on proposed material relating to professional skepticism and bias; and
 - Review of the PIOB’s summary of key comments from members of the Monitoring Group (**Agenda Item 2-G**).
9. **Agenda Item 2-C** contains a schedule setting out the comments received in April 2020 as well as the Task Force’s responses and proposed changes. In particular, the Task Force draws the IESBA members’ attention to the following substantive matters:
- A few IESBA members did not support the use of the term “ethical concepts” in proposed paragraph 100.5 on the grounds that it was unclear. Having considered those comments again, the Task Force has concluded that the term should be retained because:
 - It is important to be clear that compliance with the Code does not mean that professional accountants will necessarily have acted in the public interest (and to avoid any suggestion to the contrary). This is because the public interest is a variable concept that takes into account changing circumstances, public expectations, and changes in legislation and regulation;
 - As stated in the EM, the IESBA is of the view that the Code will not be completely “up-to-date” at any given point in time or be able to fully address the changing expectations of the

⁵ Section 120, *The Conceptual Framework*

public. Therefore, for professional accountants to display the ethical behavior expected of them, they need to comply not only with the letter of the Code but also its spirit; and

- When compared with other terms (including ethical values), the Task Force is of the view that “ethical concepts” is the best available phrase to denote the idea of “spirit of the Code”
- An IESBA member queried how compliance with the fundamental principles, both in spirit (however expressed) and in letter, as well as new proposed requirement under subsection 115 would not meet a professional accountant’s responsibility to act in the public interest. The Task Force is of the view that, because the public interest cannot be defined to encompass every situation, it is not possible to state categorically that compliance with the specific requirements of the Code combined with upholding the ethical concepts will necessarily result in a PA having met the obligation to act in the public interest.
- In proposed paragraphs 110.1 A1 (e) (i) and R115.1, the Task Force replaced the word “Uphold” with “Act in a manner consistent with”. The Task Force is of its view this revised wording will not create a de facto sixth fundamental principle.
- Following discussion with the IAASB’s PSWG, the Task Force agreed to revise the material in proposed paragraph 120.5 A3 relating to the exercise of professional skepticism by explaining that it includes a critical assessment of evidence. The phrase “critical assessment of evidence” is already used in the IAASB definition of professional skepticism in an assurance context and is also similar to the phrase used in the March 2020 posted version.
- Following the March 2020 IESBA and IAASB meetings, the IAASB has agreed to include automation bias and groupthink to the list of examples of bias in the proposed ISA 220 (Revised), which means the two Boards’ proposed texts now share the same six types of bias. As agreed with the IAASB’s PSWG, the descriptions of the types of bias in proposed ISA 220 (Revised) will mirror those in the Role and Mindset proposed text.

Matter for IESBA Consideration

1. Do IESBA members agree with the Task Force’s revisions to the proposed text in **Agenda Item 2-B?**

Due Process Matters

Significant Matters Raised by Respondents

10. It is the Task Force’s view that all significant matters raised by the respondents to the ED, including those from Monitoring Group members, have been carefully considered by the Task Force. The Task Force’s analysis of the significant matters identified and its proposals have also been presented in public agenda papers for the Board’s deliberation. In the Task Force’s view, there are no significant matters raised by the respondents that have not been brought to the Board’s attention.

Need for Further Consultation

11. The Task Force believes that all significant matters have been duly deliberated by the Board. During its March 2020 meeting, the CAG did not raise any concerns about the Task Force’s analysis of the significant matters raised by respondents to the ED or the Task Force’s related proposals. The Task Force has also had the opportunity to engage with various other stakeholders throughout the life cycle

of this project, including four global roundtables in 2018 to solicit early input into the issues, and meetings with the regulatory community (including the International Forum of Independent Audit Regulators (IFIAR) and the Committee of European Audit Oversight Bodies (CEAOB)), the Forum of Firms, the IFAC SMP Committee and national standard setters. Finally, this project has benefited from close coordination with the IAASB and the former International Accounting Education Standards Board (IAESB).

12. On the basis of the above, the Task Force does not believe there is a need for further consultation with stakeholders.

Consideration of the Need for Re-Exposure

13. The key revisions to the ED are as follows (See **Agenda Item 2-E**):

Section	Key Revisions to the ED
100	<ul style="list-style-type: none"> Replaced the term “ethical values” with “ethical concepts” to explain the IESBA’s view that a professional accountant must comply with both the spirit and letter of the Code
111	<ul style="list-style-type: none"> Replaced “determination to act appropriately” with “strength of character to act appropriately”
115	<ul style="list-style-type: none"> Replaced the word “Behave” with “Act” in paragraphs 110.1 A1 (e) (i) and R115.1
120	<ul style="list-style-type: none"> Clarified the concept of “having an inquiring mind” by more clearly stating two key considerations involved with having such a mindset; and also removed the phrase “critically evaluate” to avoid confusion about its relationship with “further investigation” More clearly explained that having an inquiring mind applies to all professional accountants whereas the exercise of professional skepticism is in relation to the performance of audits, reviews and other assurance engagements
120	<ul style="list-style-type: none"> Revised the description of groupthink as a category of bias
120	<ul style="list-style-type: none"> Included policies and procedures that encourage and protect those who report actual or suspected illegal or unethical behavior Clarified the role of individual professional accountants to promote ethical behavior and culture in their organizations

14. In light of the above, the Task Force considers the changes reflected in the final proposed text post-exposure respond to the feedback received from respondents to the ED and do not fundamentally or substantively change the proposals in the ED. Accordingly, the Task Force is of the view that re-exposure is not warranted.

Matter for IESBA Consideration

2. Do IESBA members agree that the changes to the ED do not warrant re-exposure?

Effective Date

15. The Task Force has previously noted that several respondents to the ED have called for a period of stability, particularly with respect to the newly enhanced conceptual framework after the Revised and Restructured Code became effective in June 2019. However, given the principles-based nature of the proposed revisions, the Task Force does not anticipate that extra time beyond that normally provided for revisions of average complexity (12-18 months from final issuance) will be needed by stakeholders to adopt and implement these changes to the Code. The Task Force notes that some national standard setters may specify a different (and, in most cases, a later) effective date as they need to pursue their own national due process for adoption of revisions to the Code, including any necessary translation.
16. Accordingly, subject to approval of the final text, the Task Force recommends that the Board set the effective date to be as of December 31, 2021. Assuming the PIOB approves the final text in September 2020, this will allow stakeholders over 12 months for adoption and implementation. Early adoption would be permitted.

Matter for IESBA Consideration

3. Do IESBA members agree with the Task Force's proposed effective date of the final approved text?