

Promoting the Role and Mindset Expected of Professional Accountants

Comments on ED Question 2

(Determination to Act Appropriately)

ED Question 2:

2. Do you support the inclusion of the concept of determination to act appropriately in difficult situations and its position in Subsection 111?

The respondents' responses are divided into four groups:

1. Support with minor amendments
2. Support with more substantive amendments
3. Does not support
4. No comment

1. Support with Minor Amendments

01 Abu Dhabi Accountability Authority

Yes, we agree.

02 Accounting and Audit Board of Ethiopia

Yes

The inclusion of the concept of determination to act appropriately in difficult situations is no doubt. But we assume that concept of determination to act appropriately is better included in professional behaviors in addition to this the Circumstances that the professional accountants face significant difficulties in applying procedures may be good if list as example. And also the term act appropriately has to be defined in glossary.

04 Independent Regulatory Board for Auditors

Yes. We support the inclusion of the concept of the determination to act appropriately in difficult situations and its position in Subsection 111. Integrity has become a default word when discussing matters of ethics, often without an understanding of its meaning. These amendments add robustness and depth to the fundamental principle.

Professional bodies will need to consider their jurisdictional ethical and moral landscape and appropriate examples that professional accountants should be aware of when raising awareness of these amendments.

These amendments will add a clear link between integrity and the requirements detailed under Section 360, Non-compliance with Laws and Regulations.

06 United Kingdom Financial Reporting Council

This should be expressed more strongly in 111.1.A2 as "acting appropriately when confronting dilemmas or difficult situations", rather than just having the "determination" to act appropriately.

08 The New Zealand Auditing and Assurance Standards Board

Yes. We support the proposed additions in paragraph 111.1 A2.

09 Baker Tilly International

We support the concept of acting appropriately in difficult situations, which further strengthens the concept of

Integrity. However, we believe that this requirement should be strengthened by requiring Professional Accountants to “act appropriately when confronting dilemmas and difficult situations” rather than merely having a “determination to act”. Using the terminology in the ED, what would prevent a Professional Accountant intending to act with integrity from ultimately “giving in” to external pressures; would this not be akin to “trying hard but failing an examination”? Given the public interest, would this be good enough?

The examples provided in 111.1.A2 are helpful in putting this requirement in context, although further clarity and guidance may be helpful regarding the bullet point “challenging others as and when appropriate”.

10 BDO International Limited

Yes, we support these changes.

11 Crowe Global

We agree with the inclusion of the concept of “determination to act appropriately”.

We note the discussion about terms in the Explanatory Memorandum. There will be challenges in conveying the meaning of the chosen term. The IESBA may wish to develop case studies to illustrate the meaning of “determination to act appropriately”.

14 Grant Thornton International Limited

GTIL supports the inclusion of the concept however, we believe the concept and guidance of “determination to act appropriately” in difficult situation is better positioned in subsection 115 – Professional Behaviour.

The fundamental principle of professional behaviour explicitly discusses the professional accountant’s responsibility to act in the public interest, avoid conduct that will discredit the profession, and comply with relevant laws and regulations.

In our view, if a professional accountant does not act appropriately in difficult situations, a direct consequence of their conduct would be a failure to act in the public interest, potentially discrediting the profession.

Although we understand that all the fundamental principles underscore the professional accountant’s responsibility to act in the public interest, which is the core underpinning of the concept of determination to act appropriately, we feel the fundamental principle of professional behaviour best explains the requirements of the concept.

15 KPMG IFRG Limited

We support the inclusion of this concept in the Code of Ethics.

17 PricewaterhouseCoopers International Limited

We support the concepts included in 111.11 A2 but suggest that the final line of the paragraph be amended to “might create” adverse consequences, given that the individual might not know this at the time.

As with many aspects of application of the Code, the professional accountant might need to be able to demonstrate at a point in the future that he or she gave consideration to this requirement at the time, as these judgements are often questioned after the fact in difficult and challenging situations.

Accordingly, we suggest that the application material provides some guidance on documentation.

18 RSM International

Yes, we support the inclusion of the concept of determination to act appropriately in difficult situations and its position in Subsection 111.

20 Association of Chartered Certified Accountants

We believe the changes to the Fundamental Principles within Section 110 have achieved the objectives set and adequately describe the attitudes and behaviours required.

We support the inclusion of the concept of determination to act appropriately in difficult situations and its position within the principle of Integrity in Subsection 111. The determination to act emphasises the need to do the right thing through thick and thin, but stops short of the need to exercise 'moral courage'.

We also welcome the redrafting of the principle of Objectivity which is expressed more positively; the additional references to technology in the principles of Objectivity and Professional Competence and Due Care which highlight the importance of this area; and the new behavioural requirement in relation to the public interest within the principle of Professional Behaviour.

23 Chartered Accountants Australia and New Zealand

We support the proposed amendment to subsection 111. In the ordinary circumstances, there is arguably already sufficient guidance in the Code for professional accountants to determine this concept for themselves. However, the additional proposed guidance material in subsection 111 may assist professional accountants when facing complex ethical decisions.

24 Consultative Committee of Accountancy Bodies

Yes, this is an appropriate treatment of an attribute that may be necessary to achieve the fundamental principles, under such circumstances

27 Federación Argentina de Consejos Profesionales de Ciencias Económicas

We support the inclusion in subsection 111

28 FAR

FAR supports the addition of new application material relating to integrity, as it adds aspects of the concept of integrity that are more in line with the generally accepted definition than the current description. But, in FAR's opinion, acting with integrity should not be defined as a determination to act appropriately. It's the carrying out of the determination that is significant when defining integrity.

Integrity should therefore be to act appropriately when confronting dilemmas or difficult situations. One way to express this might be: "Integrity also includes acting according to one's conviction of what is right when confronting dilemmas or difficult situations..."

29 Hong Kong Institute of Certified Public Accountants

We note that the proposals in subsection 111 focus on professional accountants' determination to act appropriately when faced with conflicting dilemmas or difficulties, which implies the importance of professionalism.

While similar concepts are implicit in the fundamental principles and the Responding to Non-Compliance with Laws and Regulations requirements, we support the inclusion of the materials to clarify the values and strengthen professional accountants' application of professional judgment in difficult circumstances.

It would be helpful for IESBA to develop practical examples to illustrate the concept of determination to act appropriately in difficult situations e.g. how a professional accountant can act appropriately where there are cross borders laws and regulations prohibiting the professional accountant from obtaining relevant information.

30 Iranian Association of Certified Public Accountants

That notwithstanding, we strongly support the revisions particularly, introduction of the concept of an inquiring mind. and have no more comment to add.

32 Institute of Chartered Accountants in England and Wales

We support the inclusion of the concept of determination to act appropriately when confronting dilemmas or difficult situations. The examples given in 111.1 A2 may need slight refinement however, to clarify that

“Challenging others as and when appropriate” should only apply during the course of professional activities (as the first example in the sub-section specifies). We presume this is in the intention of the new paragraph 111.1 A2, and the Code does not expect that a professional accountant should challenge others in the broader context of their personal life.

34 Institute of Chartered Accountants Of India

We broadly support the same.

35 Institute of Chartered Accountants of Nigeria

Yes, we support the inclusion of the concept of determination to act appropriately in difficult situations and its position in Subsection 111.

We are also of the view that the context on the determination to act appropriately must be provided. For example, the professional accountant determination to act appropriately in compliance with the relevant IFAC fundamental principles in the face of difficult situations. This is because what is appropriate is relative and to avoid unintended consequences, context must be provided.

36 Institute of Chartered Accountants of Scotland

We note that paragraph 111.1 A2 states the following:

“111.1 A2 Integrity also includes having the determination to act appropriately when confronting dilemmas or difficult situations. This would involve, for example:

- Standing one’s ground when facing pressure to do otherwise during the course of performing professional activities, or
- Challenging others as and when appropriate, even when doing so creates potential adverse personal or organizational consequences.”

We support the addition of this application material to supplement the requirement to act with integrity stated at paragraph R111.1. It serves to highlight that it is not always easy to do “the right thing”, and that ethical leadership often requires “moral courage”. As noted in paragraph 29 of the Explanatory Memorandum, ICAS has incorporated into paragraph 100.5 of its Code of Ethics (substantively based on the IESBA Code) the following text to highlight the need for courage to act morally:

‘In order to ensure compliance with the fundamental principles, an underpinning qualitative characteristic required of the professional accountant is the ‘courage’ to act morally. ‘Courage’ for the professional accountant is the need to act in accordance with the fundamental principles, especially in situations where there is a risk of suffering adverse personal consequences.

There is a need for the professional accountant to confront ethical dilemmas with courage. When facing an ethical dilemma, the professional accountant needs to have the courage to acknowledge the dilemma, to make a reasoned judgement as to the ethical action required to resolve the dilemma, and then to act accordingly.’

37 Institut der Wirtschaftsprüfer

We support the inclusion of the concept of the “determination” to act appropriately in difficult situations and its position in Subsection 111. However, we recommend that the word “determination” be replaced with “fortitude”, since the word “determination” has many different meanings in the English language and is likely to be mistranslated. In addition, the use of the word “fortitude” is more precise in this context.

39 Japanese Institute of certified Public Accountants

We support its inclusion.

41 Royal Nederlandse Beroepsorganisatie van Accountants

We support IESBA's position to emphasize the professional accountant's responsibility in a general way. We believe that with the proposals in the exposure draft, sufficient guidance is offered to the professional accountant to fulfill his responsibility. Further we believe that with these proposals the IESBA with the Code of Ethics meets the requirements set for the accountant in this time of technological developments and a critical attitude of the environment in which the professional accountants act.

43 Wirtschaftsprüferkammer

We agree.

2. Support with More Substantive Amendments

07 Accounting Professional Ethical Standards Board Australia

APESB supports the inclusion of having the determination to act appropriately when confronting dilemmas or difficult situations as we consider it to be an essential characteristic of Professional Accountants to act ethically. However, APESB does not support the current form of the proposed application material in paragraph 111.1 A2, as we are of the view that the determination to act appropriately should:

- apply more broadly to other fundamental principles and not just integrity. For example, section 270 of the IESBA Code addresses situations where Professional Accountants are put under, or exert, pressure to breach the fundamental principles and highlights that pressure can create threats to objectivity and professional competence and due care;
- be broader than when facing pressure or challenging others as and when appropriate, with additional examples to explain the breadth of application; and
- not include the terminology 'standing one's ground,' which is a colloquialism that could create translation problems (also relevant to paragraph 120.16 A2).

Based on the above, APESB is of the view that determination to act appropriately when confronting dilemmas or difficult situations may be better placed as an 'underpinning qualitative characteristic required of the professional accountant'⁴ in section 110 of the IESBA Code or an enabler to the conceptual framework in section 120 of the IESBA Code.⁵ This approach would broaden the applicability of the concept beyond the fundamental principle of Integrity.

Further, APESB notes that there is potential discord between confronting dilemmas or difficult scenarios 'even when doing so creates potential adverse personal or organizational consequences'⁶ and the determination whether or not to disclose matters under NOCLAR provisions 'whether there are actual or potential threats to the physical safety'⁷ of the Professional Accountant.

13 Ernst Young Global Limited

While we agree with including the concept of acting appropriately in difficult situations, we believe this concept needs to extend beyond having only the determination to act appropriately.

Therefore, we recommend that the Board remove the wording "having the determination to" , and more clearly state that, " Integrity also includes acting appropriately when confronting dilemmas or difficult situations."

Also, the Code currently acknowledges within Section 260, Responding to Non-compliance with Laws and Regulations, that a potential threat to physical safety is a consideration in complying with the requirements of Section 260 (Section 260 .20 A3). The Board should consider including a similar consideration when the professional accountant is evaluating the need to confront dilemmas or difficult situations in order to comply with the fundamental principle of acting with

integrity. Additionally, deciding what constitutes "potential adverse personal or organizational consequences" will be a subjective evaluation, and might require additional guidance or examples before this could be adequately complied with.

16 Moore Global

Yes, we agree with the concept of determination to act as another element of integrity, but do not like the word “determination” in itself.

This word has two meanings, the first meaning is one of firmness of purpose which could be considered to be “dogged” and does not necessarily have positive connotations. The second meaning is one of deliberating or choosing a course of action – the connotation of “choosing” is not appropriate in the context of “doing the right thing”.

More suitable words to describe this may be “resolve” or “strength of character”. We have no problem with the position in subsection 111 as we agree that the concept is aligned with acting with integrity.

19 U.S. Government Accountability Office

We support the inclusion of the concept of determination to act appropriately in difficult situations. We suggest that the IESBA consider whether the concept could be strengthened by clarifying the meaning of “difficult situations” and when it is appropriate to challenge others. For example, the guidance could clarify the expectations of an accountant in business if management and the accountant had different interpretations of an accounting standard that are both reasonable but the accountant’s interpretation is more conservative. The expectations to stand one’s ground or challenge others would be different in situations where there is a reasonable difference of opinion versus a situation when management requested that an accountant record a clearly fraudulent entry. In what circumstances should an accountant conclude that a threat to integrity is not at an acceptable level if the accountant does not challenge management?

The importance of clarifying when it is appropriate to challenge others is magnified by the lack of safeguards noted in the Code. If an accountant does conclude that a threat to integrity is not at an acceptable level, there are few safeguards noted in the Code that the accountant could use to reduce or eliminate the threat. Per the Code, the accountant is expected to decline or end the professional activity and may be required to resign from the employing organization if the accountant cannot reduce the threat to an acceptable level. We believe that additional guidance is necessary to assist accountants in applying the concept of determination to act appropriately in difficult situations and to help them identify, evaluate, and address threats to compliance with the fundamental principles.

Moving the concept of determination to act appropriately to Section 270, Pressure to Breach the Fundamental Principles, may clarify the expectation for accountants to stand their ground. We believe that the concept of pressure to breach is clearer than the concepts of dilemmas or difficult situations in the Code and that moving this guidance will assist accountants in identifying situations when it would be necessary to stand one’s ground and challenge others. Also, we believe that actions such as standing one’s ground and challenging others may be appropriate when accountants face pressure to breach any of the fundamental principles, not exclusively the principle of integrity. We also suggest that the IESBA consider adding more examples of safeguards to the Code to assist accountants in addressing threats to compliance with the fundamental principles.

22 Botswana Institute of Chartered Accountants

Paragraph 111.1 A2 lacks basis for examples given. While the paragraph correctly refers to determination to act appropriately, it does not point out the importance of having supporting evidence for the action or contradicting evidence to that which is put before the professional accountant.

The whole paragraph should therefore be revised to communicate that determination to act appropriately ought to be based on supporting evidence for position held. Without this emphasis, it could be construed that the professional accountants can just stand their ground even without supporting evidence.

Location of the concept in Subsection 111 is appropriate as it relates to acting in straightforwardness, the essence of which is integrity.

25 CPA Australia Ltd

CPA Australia appreciates the importance of affirming the PAs responsibility to act appropriately when confronting difficult circumstances, as this forms the basis of ethical behaviour. What is considered appropriate behaviour by an individual PA, however, may depend a range of factors, including for example, the level of experience of the PA and their level of understanding of the issues that are presented. CPA Australia does not object to the material contained in Subsection 111.1 A2, however, we are of the view that the behaviours demonstrated by a PA when confronting difficult situations are also relevant to other, if not all, fundamental principles. The material contained in Subsection 111.1 A2 may be better placed in Section 100 of the Code as overarching principles and behaviours expected from the PA.

The phrase, "standing one's ground" is a colloquialism which may not be understood in some cultures as it is intended by the IESBA. In Australia, for example, 'standing one's ground', can be interpreted negatively as a reluctance to consider alternative viewpoints in the presence of contradictory and credible evidence. This phrase may create issues for translation of the Code in non-English speaking jurisdictions. CPA Australia suggests the phrase "have the courage of (one's) convictions" which is defined as:

'To have the confidence to act or behave in accordance with one's beliefs or ideologies, especially in the face of resistance, criticism, or persecution.'

26 Chartered Professional Accountants of Canada

We support the importance of standing one's ground in the face of pressure, however, we received some feedback that "determination" may not be a preferred word (e.g., one suggestion was "courage of conviction") but more and stronger feedback was received that acting appropriately may be subject to interpretation and potentially it may be too broadly interpreted. A suggestion made in this regard for 111.1 A1 was "Integrity also includes having the determination to act in compliance with the Code when confronting dilemmas or difficult situations". Another suggestion made to restrict an excessively broad interpretation of "appropriate" is to instead state that professional accountants must have the courage to resist pressure when asked to act illegally or be associated with a false or misleading statement or document. Overall, we believe there should be a narrowing of the potential scope of interpretation as to what "appropriate" may mean or be interpreted as.

31 Instituto dos Auditores Independentes do Brasil

Yes, we support the inclusion of the concept of determination to act appropriately in difficult situations and its position. However, see in our response above the suggestion about the inclusion of examples of dilemmas and difficult situations in the Introduction Subsection in paragraph 100.

33 Institute of Certified Public Accountants of Uganda

ICPAU supports the inclusion of the concept of determination to act appropriately in difficult positions because this concept further illustrates the principle of integrity that professional accountants are expected to adhere to. However ICPAU believes that IESBA should take care to ensure that the concept embraces and does not water down the aspirational aspects of moral courage as laid out in the Institute of Chartered Accountants of Scotland (ICAS) Code of Ethics. ICPAU believes that the concept can be supported by illustrative examples within the application material.

38 Institute of Singapore Chartered Accountants

The fundamental principle of "integrity" requires a professional accountant to be straightforward and honest and implies fair dealing and truthfulness.

The ED proposes to add new application material in paragraph 111.1 A2 relating to the fundamental principle of "integrity" that emphasizes the importance of having the determination to act appropriately when confronting dilemmas or difficult situations.

Paragraph 111.1 A2

Integrity also includes having the determination to act appropriately when confronting dilemmas or difficult situations. This would involve, for example:

- Standing one's ground when facing pressure to do otherwise during the course of performing professional activities; or
- Challenging others as and when appropriate, even when doing so creates potential adverse personal or organizational consequences.

We observe that paragraph 111.1 A2 may pose practical challenges for junior professional accountants in business ("PAIBs") who are employees and would be inclined to conform with the directions and priorities set by their organizations. It may not be practical to expect a junior PAIB who exercised critical evaluation and made the necessary report to his or her supervisor to take further steps that goes beyond his or her power.

We recommend that IESBA considers whether there is a need to set different expectations for junior PAIBs compared to senior PAIBs. A senior PAIB should challenge more and should be prepared to step away from his or her role/ organization. This is consistent with the differential approach developed to subject senior PAIBs to more stringent requirements than other PAIBs in responding to identified or suspected Non-Compliance with Laws and Regulations ("NOCLAR").

40 Malaysian Institute of Accountants

We support the inclusion of the concept of determination to act appropriately in difficult situations.

However, we would suggest that safe harbour provisions or guidance be added to support the inclusion of this concept.

42 South African Institute of Chartered Accountants

SAICA would like to propose that the wording "Challenging others as and when appropriate" is changed to "Challenging others with an informed mind as and when appropriate".

The use and value of the two examples given were questioned. The use of only two examples may raise more questions than providing guidance, as it only deals with handling pressure or challenging others, whilst there is a wide range of difficult situations being dealt with by professional accountants.

Section 111.1A2 refers to having the determination to act appropriately when confronting dilemmas or difficult situations. We question the use of the two concepts as we are not sure what the difference is between a "dilemma" or a "difficult situation".

45 IFAC Small and Medium Practices Committee

While we agree in essence with the proposed changes, how it will be operationalized is likely to cause concern for many PAs and SMPs. A more robust mechanism (similarly raised in Question 1 above) involving threshold/ severity, work effort etc., to guide the PA to act appropriately may be needed, especially when doing so can create potential adverse personal or organizational consequences.

Aside from the Code, a supportive eco-system (such as the option of obtaining advice from an appropriately knowledgeable and experienced individual through a telephone hotline or via e-mail) is also required to guide the PA to act appropriately in difficult situations. Additional support could therefore be expected to be provided, for example by PAOs in order to help their member navigate such difficult dilemmas or situations. Recently, the IFAC Professional Accountants in Business (PAIB) Committee shared some examples of how some PAOs are undertaking various ethical activities to better support their members.

There is concern that "having the determination to act appropriately" (para. 111.1 A2) will cause translation issues and it may imply that the intent is more important than the actual action. The Board must also recognize that "having the determination to act" is one thing; the PA will still need to have the fortitude or

“backbone” to carry out the action.

3. Does Not Support

05 National Association of State Boards of Accountancy

NASBA believes that the concept of determination to act appropriately should clearly be the goal of any professional accountant, whether they are in public accounting or business. However, the term “challenge” connotes more than simply refusing to “go along,” which can be a quiet action. The addition seems to imply a more confrontational stance on the part of the professional accountant, which could be counterproductive. We note that these matters are addressed in great detail in at least two of the Code’s provisions; Pressure to Breach the Rules (Section 270) and Noncompliance with Laws and Regulations (Sections 260 and 360).

12 Deloitte Touche Tohmatsu Limited

We support providing guidance on the principle of integrity in the context of how it supports compliance with the Code. It is unclear how terms such as “acting appropriately” or “standing one’s ground,” or personal characteristics such as “resolve” or “courage” provide any greater clarity about what ethical behavior is expected of the accountant when complying with the principle of integrity, or how these concepts relate to the conceptual framework. For example, simply standing one’s ground when one has a difference of opinion with a client may not be acting appropriately in the circumstances. It is also unclear how 111.1 A2 interacts with Section 270 *Pressure to Breach the Fundamental Principles*, which requires the accountant not to allow pressure from others to result in non-compliance with the fundamental principles.

We agree an accountant may confront a dilemma or difficult situation, which could involve facing pressure to breach the fundamental principles or could involve having to weigh the consequences of possible courses of action which may include not complying with a requirement of the Code. We consider that the guidance could simply state that complying with the principle of integrity means withstanding such pressure, complying with the Code and upholding the fundamental principles, even in the face of potential adverse personal or organizational consequences.

21 Accountancy Europe

We believe that integrity is the overarching fundamental principle of the ethical behaviour of professional accountants and that this fundamental principle already includes having the determination to act appropriately when confronted with dilemmas or difficult situations.

The provisions in the Code should remain principles-based to avoid setting rules determining what is acceptable and what is not. Therefore, we are not convinced of the need and the benefit of including examples in the paragraph 111.1 A2.

44 IFAC Professional Accountants in Business Committee

Having a concise paragraph on having to stand one’s ground is helpful to those in facing ethical dilemmas, however the IESBA is using the term “determination to act appropriately” as a way of avoiding the terms “moral courage” or “courage”.

The PAIB Committee does not believe that this alternative term is a strong enough concept and are strong advocates for the inclusion of the word “courage”.

Our focus at PAIB Committee meetings has centered around moral courage, moral awareness, and moral competence. At the end of the article *Dealing with Ethical Dilemmas with Confidence*, we asked for feedback on the usefulness of a moral intervention model. The feedback has been positive with 80.5% (62 out of 77 respondents) indicating they found it useful. 16.9% indicated that it would benefit with additional guidance. This suggests that the term “moral courage” is likely to resonate with the majority of accountants.

Other concerns with the proposed concept:

- Using the term “determination” suggests that accountants need to be strong enough to always make the right choice, but when facing an ethical dilemma, situations may not be so clear cut in terms of what is the right choice. Most business dilemmas involve trade-offs and there cannot always be a right or wrong answer, but it is important to be conscious of the trade-offs being made when addressing a business dilemma. Accountants need to use their own judgements and stand for what they believe is right. Acting on their own beliefs is missing from the text.
- To “act appropriately” is subjective.

4. No Comment

03 Basel Committee on Banking Supervision

46 Professor Sir Andrew Likierman