

Revision of Part C Phase 1–Restructuring Issues and Task Force Proposals

How the Project Serves the Public Interest

Through the development of a restructured Phase 1, the project serves the public interest by:

- Enhancing understandability of the Code, thereby facilitating compliance and enforcement; and
- Improving the usability of the Code, thereby facilitating adoption, effective implementation and consistent application.

A PAIB may be offered an inducement with the intention of influencing the behavior of the PAIB or obtaining an advantage from the PAIB that would not have been attained without the inducement. Such actions might violate the legitimate objectives of the PAIB's employing organization and could result in the PAIB failing to comply with the fundamental principles of the Code. It is not in the public interest for a PAIB to offer, solicit or accept inducements that could result in non-compliance with the fundamental principles of the Code.

In addition, while the focus of Part C of the Code is on PAIBs, the guidance within Part C might be applicable to professional accountants in public practice (PAPPs) in certain circumstances, notably as relates to intra-firm relationships and relationships with external parties that are not clients.

Background

1. This paper discusses issues and Task Force's proposals regarding the restructuring of Part C¹ Phase 1 (restructured Part 2). The proposed text is set out in **Agenda Item 5-B**, which also includes, in gray text, conforming amendments arising from the Safeguards project. Those conforming amendments will be presented during the Safeguards session of the December 2016 IESBA meeting. Accordingly, section C of **Agenda Item 4-A**, summarizes the rationale for those conforming amendments.
2. The close-off document for Part C Phase 1 (close-off document²) has been drafted using the format and drafting conventions of the extant Code. Restructured drafts of this close-off document were presented to the Board at earlier IESBA meetings. The Task Force has proposed further revisions to the draft presented at the September 2016 IESBA meeting to:
 - Address comments raised by Board members at the September 2016 IESBA meeting; and
 - Conform to the updated structure drafting guidelines set out in **Agenda Item 3-I**.

Summary of Revisions Made Since September 2016 Draft

3. The IESBA generally agreed to the restructured draft of the close-off document, but in addition to specific restructuring suggestions, asked that the Task Force work closely with the Safeguards and Structure Task Force to:
 - Ensure that its proposals are consistent with other material in the Code that deal with similar topics. For example, it was suggested that some of the requirements and application material

¹ Restructured Part 2– *Professional Accountants in Business* (Extant Part C, *Professional Accountants in Business*)

² <http://www.ethicsboard.org/system/files/meetings/files/Agenda-Item-D-3.1-Part-C-Phase-1-Close-Off-Document.pdf>

relating to conflict of interest in Sections 210³ and 310⁴ should be more closely aligned.

- Further refine the conforming amendments arising from the Safeguards project.
4. The table below includes a summary of the restructuring suggestions received off-line after the September 2016 Board meeting and the Task Force's responses.

Restructuring Suggestion		Task Force Response
1.	Merge the application material on ethics and code of conduct policies in paragraph 200.6 A3 ⁵ into other application material within one of the other bullet points.	The Task Force does not believe that this is plausible, since the bullet points address different issues.
2.	In paragraph 210.7 A3: Move the second to last example into a separate paragraph as it cannot be a safeguard, but can be an action. (a) Delete the last example as consulting another party cannot be a factor, safeguard or action and is covered under paragraph R120.10. ⁶	The Task Force agrees and has made the necessary changes.
3.	Move the example on how to influence contractual or regulatory outcomes inappropriately, in paragraph 220.7 A1 ⁷ , into the list of examples of ways discretion could be misused to achieve inappropriate outcomes in paragraph 220.8 A1.	The Task Force disagrees with this suggestion as the example is specifically linked to the application material in paragraph 220.1 A1. For clarity, the example has been merged into the application material to which it specifically relates to.
4.	Delete reference to familiarity threats in paragraph 240.2, ⁸ as it is questionable how a familiarity threat could arise in relation to objectivity and confidentiality as relates to financial interests.	The Task Force agrees and has made the necessary changes.
5.	In paragraph 240.4 A4, delete the guidance on consultation and education, as both are covered within Section 120.	The Task Force agrees and has made the necessary changes.

³ Section 210, *Conflict of Interest*

⁴ Section 310, *Conflict of Interest*

⁵ Section 200, *Applying the Conceptual Framework – Professional Accountants in Business*

⁶ Section 120, *The Conceptual Framework*

⁷ Section 220, *Preparation and Presentation of Information*

⁸ Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*

Matter for IESBA Consideration

1. IESBA members are asked for views on the restructuring of Part 2 that have not been addressed by the Safeguards Task Force.

Glossary Definition of PAIB

5. At the September 2016 Board meeting, the IESBA agreed with the Task Force that the glossary definition for PAIB should be updated, so that it aligned to the enhanced description of a PAIB in paragraph 200.3of the close-off document.

6. The following substantive suggestions were received on the proposed revised definition:

- (a) An IESBA meeting participant suggested that the roles listed in the definition appeared comprehensive and could be interpreted to preclude other roles. It was suggested that trailing words, such as “or another” could be added to the definition to indicate that the list is not finite.

Task Force Response: The Task Force believes that definition should not be an exhaustive list, and thus proposes that the definition be reclassified as a description, along with additional wording to clarify that it is not a finite list.

- (b) Subsequent to the September 2016 Board meeting, the Structure Task Force suggested that the description should be restructured by listing the areas that a professional accountant might be working in before the position that the professional accountant might occupy.

Task Force Response: The Task Force agrees with the Structure Task Force’s view. Its proposal is shown in mark-up at page 21 of **Agenda Item 5-B**.

Matter for IESBA Consideration

2. IESBA members are asked for views on the revised glossary description.