

April 13, 2015

Chair
International Ethics Standards Board for Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017

Re: Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles

Dear Members of the International Ethics Standards Board for Accountants:

We appreciate the opportunity to provide comments on the exposure draft "*Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles*" (the "Exposure Draft") issued November 2014 by the International Ethics Standards Board for Accountants ("IESBA" or "Board").

General Comments

We agree it is in the public interest for the provisions of the *Code of Ethics for Professional Accountants* ("Code") that are applicable to public accountants in business (PAIB) to be appropriate and robust. However, as noted in our comment letter dated February 28, 2014, in response to the Board's "Consultation Paper: Proposed Strategy and Work Plan, 2014-2018", prior revisions to Section 320 are not yet effective or adopted by IFAC member bodies. In our judgment, it would seem prudent to wait and analyze implementation of these recent provisions of the Code before determining whether additional guidance is needed in particular areas. Furthermore, we encourage the Board to undertake efforts to engage PAIBs to increase awareness and understanding of the sections of the Code that apply to PAIBs.

With respect to the Exposure Draft itself, we have noted that the Board has proposed changes to the Code that provide useful guidance to PAIBs, but further enhancements can be achieved. While the guidance purports to apply to both financial and non-financial information, the examples provided throughout appear to be heavily weighted toward guiding a PAIB who is involved with financial statement preparation. There are many other areas in which PAIBs are involved and must uphold the fair and honest principle, for example, when undertaking activities involving budgeting, taxation and regulatory reporting. We encourage the Board to consider ways to expand the guidance to provide examples that apply to a broader range of activities undertaken by PAIBs. Additionally, with the number of projects currently underway, it would be advisable for the Board to coordinate the issuance of the various standards together, especially "Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations (NOCLAR)".

Our comments to the questions raised in the ED are provided below.

Specific Comments

Proposed Revised Section 320

1. Is the enhanced guidance on applying the “fair and honest” principle in Section 320 helpful?

The additional guidance on applying the “fair and honest” principle is helpful. We suggest the following modification to paragraph 320.2 to enhance this guidance further and to improve readability:

- Change the second bullet to “Not intentionally omitting information ~~with the intention of rendering the information to provide misleading information;~~”

We also suggest adding “government agencies” to the list of stakeholders in paragraph 320.1.

2. In particular, do respondents support the guidance in paragraph 320.3 addressing the issue of misuse of discretion in a manner that is intended to mislead? If not, please explain why. Are there any other considerations relating to this issue that should be addressed in Section 320?

We agree that the guidance in paragraph 320.3 provides some useful examples of the issue of misusing discretion to mislead, but we note these examples are all focused on financial accounting. PAIBs hold various roles and it would be helpful to expand this list to include other areas, perhaps for PAIBs who are involved with tax compliance or regulatory reporting.

We do have concerns about the example that states “Selecting a particular accounting method among two or more alternatives permitted under the applicable financial reporting framework. For example, selection of one method from among alternative revenue recognition methods in order to manipulate income.” Since this example already states that the alternative accounting methods are permitted, under what circumstances would a PAIB be in violation of the fundamental principles when selecting one permitted method over another? This example places a PAIB in a very difficult position when deciding which method to follow if both alternatives are permitted however the application of each results in a different outcome. It isn’t clear whether a PAIB is considered to be intending to mislead merely because they select an alternative that results in a more favorable outcome. We suggest providing additional guidance that clarifies the intent or deleting this as an example.

3. Paragraph 320.4 provides guidance as to what PAIBs are expected to do ethically in order to prepare or present fairly and honestly information that does not have to comply with a relevant reporting framework. Is this guidance sufficient? If not, what further guidance could Section 320 usefully provide?

We do not feel paragraph 320.4 is properly conveying this goal. It is not clear that this guidance relates to instances where compliance with a reporting framework is not necessary. Additionally, the example does not support this objective and it is not clear why a PAIB would be *required* to provide the listed information. This paragraph should be redrafted to make this intent more clear such as:

“There are instances when a professional accountant in business provides information that is not required to comply with a reporting framework. In these cases, it is important for the professional accountant to consider the purpose for which the information is to be used, the context in which it is provided and the audience to whom it is addressed. For example, when preparing or presenting financial information such as pro forma reports, budgets or forecasts it may be appropriate for the professional accountant in business to include relevant estimates, approximations and assumptions that are necessary to enable those who may rely on such information to form their own judgments.”

4. Do respondents agree that where a PAIB relies on the work of others, the PAIB should be required to take reasonable steps to be satisfied that such work enables the PAIB to comply with the overarching principle in paragraph 320.2?

While conceptually this is an admirable principle and we agree a PAIB should not use information that would preclude him/her from complying with the overarching principle in paragraph 320.2, we are left with a number of questions. What actions would the PAIB need to take to comply with paragraph 320.5? What is meant by “shall take reasonable steps”? Would the PAIB be required to understand the skill level of the individual performing the work they are using? What if the identity of the individual providing the work is not known, especially if that individual is not from within the same organization? If the Code contains such a requirement, a PAIB will need further guidance to ensure compliance.

5. Do respondents agree with the guidance proposed in paragraphs 320.6 and 320.7 regarding disassociation with misleading information? Are there other actions that could be specified?

We agree with the guidance and examples provided in paragraphs 320.6 and 320.7. It would also be appropriate to consider the approach that is being contemplated in the NOCLAR proposal whereby there are different responses based on the PAIB’s level in an organization. A senior PAIB would undertake different activities and be expected to take different steps than a more junior individual. For example, it would be appropriate for a senior PAIB to discuss the matter with those charged with governance, but a junior PAIB would not necessarily have this same level of access. We are unsure whether the recommendation in paragraph 320.9 to document matters applies to the prior discussions in paragraphs 320.6 through 320.8 or if this is a recommendation in all cases. This point should be clarified and if it relates to all cases, we recommend moving this paragraph earlier on in the section.

Proposed Section 370

1. Do respondents agree with the overarching requirements in paragraphs 370.1 and 370.2?

We agree with the overarching requirements in paragraphs 370.1 and 370.2. It would also be useful to explain these requirements are in addition to addressing the threats a PAIB may encounter in carrying out his/her duties (e.g., self-interest threat resulting from incentive compensation) as addressed in Section 300 of the Code.

2. Are the illustrative examples of types of pressure that could result in a breach of the fundamental principles in paragraph 370.4 helpful?

The illustrative examples of the types of pressure that could result in a breach of the fundamental principles are helpful, but we do have suggestions to improve these examples:

- Incorporate the concept of assigning work to others who do not possess the suitable skill level in order to reduce costs by amending the following example under “Pressure to act without sufficient expertise or due care” as follows: “Pressure from superiors to inappropriately reduce the extent of work performed or assign work to individuals without the necessary skills or expertise in order to reduce costs.”
- “Pressure to engage in activities or transactions that may violate laws or regulations” would not seem to be a pressure in and of itself. Rather, the pressure is already encompassed in other topics in this paragraph such as “Pressure related to inducements” and the result of the pressures described would then result in the violation of laws or regulations. We suggest deleting this as an example of a pressure.

3. Is it sufficiently clear that Section 370 addresses pressure that could result in a breach of fundamental principles, as opposed to the routine pressures that exist in the workplace? In particular, does paragraph 370.5 provide sufficient guidance to assist the PAIB in making that distinction? If not, what other considerations should the PAIB take into account?

It is clear that Section 370 addresses pressure that could result in a breach of fundamental principles, as opposed to routine pressures that exist in the workplace. We feel the examples in paragraph 370.4 are more useful to the PAIB in making that distinction than the guidance in paragraph 370.5. We are unsure of the intention of paragraph 370.5 as currently drafted and the ultimate goal for a PAIB after considering these items is not clear. In particular, while the tone at the top of an organization may contribute to whether or not a pressure to breach the fundamental principles may be tolerated, this guidance does not indicate actions a PAIB may consider taking in such a case. We suggest deleting this particular item from the list. We also suggest adding the need to consider professional standards in these cases by making the following edit: “The application of the relevant professional standards, laws and regulations to the circumstances.”

4. Do respondents find the guidance in paragraph 370.6 on responding to pressure that would result in a breach of the fundamental principles helpful? Are there other actions that should be considered?

The examples in paragraph 370.6 are helpful conceptually, but we suggest the following changes:

- We are concerned that the term “constructive challenge” in the first bullet may not be widely understood or easily translated into other languages. We suggest changing this to “Address the matter with the individual exerting the pressure.”
- The third bullet point is implying the external auditor is within an organization and we do not see the need for specifically referring to independent directors. We suggest amending that bullet as follows: “Escalate the matter within the entity, for example, with to higher levels of management, internal audit ~~or external auditors~~, or those charged with governance, ~~including independent directors or to the external auditors~~ and, when appropriate, explaining any consequential risks to the organization.

5. Are the references to other sections of Part C of the Code, in paragraph 370.9, helpful?

Yes, though they may be more useful if located at the beginning of Section 370.

Additional Drafting Suggestions:

In addition to the comments above, we have the following drafting suggestions:

- One of the goals of the Structure of the Code project would be to re-draft the language in the Code so that it is more easily understood, especially for a user whose first language is not English. With that in mind, it would be useful for the Board to consider areas within this Exposure Draft that can be made more readable and easily understood.
- It appears “professional accountants in business” is only used the first time in each section and then the term “professional accountant” is used for the remainder. While slightly longer, we suggest using “professional accountant in business” in each instance as this is a defined term.
- *Paragraph 320.11* – In order to increase the readability of this paragraph, consider the following edit: “Where threats to compliance with the fundamental principles relating to the presentation of information arise from pressure from others, the guidance in Section 370 is relevant.”
- *Paragraph 300.3* – The extant Code specifies “salaried employees.” Whether compensation is salaried or not is irrelevant in this section. We suggest deleting the word “salaried.”
- *Paragraph 340.1* – Familiarity threat has been added with respect to manipulating price-sensitive information in order to gain financially. It is not evident how this would be a familiarity threat. We suggest deleting this change and leaving this paragraph in the extant Code unchanged.

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- *Section 370* –Change the title to “Pressure from Others to Breach the Fundamental Principles”

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We would be pleased to discuss our comments with members of the IESBA or its staff. If you wish to do so, please feel free to contact Wally Gregory, Managing Director Global Independence, via email (wgregory@deloitte.com) or at +1 203 761 3190.

Sincerely,

A handwritten signature in cursive script that reads "Deloitte Touche Tohmatsu Limited".

Deloitte Touche Tohmatsu Limited