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Our ref SS/288

25 April 2017

Dear Mr Siong

**Exposure Draft: Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice**

We appreciate the opportunity to comment on the above Exposure Draft issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG network.

We are supportive of the effort of the Board to clarify the applicability of provisions in Part C of the extant code to professional accountants in public practice (PAPP).

We support the principles-based approach and agree it is helpful for the application material to include an example of a non-client related ethical issue that may be relevant to the requirement in R120.4/R300.5. However, we are concerned that the proposed example is not very helpful because it is quite vague and does not clearly explain which aspects of the requirements and application material in Section 270 would be relevant and why.

We suggest the following example of how a PAPP considers an ethical dilemma would be more reflective of the Board's objective in introducing the requirement in R120.4/R300.5:

"A PAPP within an Advisory division of a public accounting firm is preparing financial information in relation to the profitability of the division which affects the financial remuneration both of the partner(s) in charge of the division and, potentially, the PAPP himself or herself because of the existence of performance related remuneration.

In preparing the financial information the PAPP should apply the requirements of Section 220 on Preparation and Presentation of Financial Information, having regard to 220.9 on exercising professional judgment.

There are two potential threats that the PAPP should identify:

- A potential conflict of interest (210.5) where those in charge of the division could exercise undue pressure on the preparation of the financial information; and
- The self-interest threat (240.4 A2) in relation to performance related remuneration.

In exceptional cases there could be a threat of inducement by those in charge of the division, for example, by offering preferential treatment to the PAPP (section 250).

Once the PAPP has identified the threats he or she may seek guidance in relation to the conflict of interest threat from relevant personnel within the firm outside the division following 210.9 A1.”

Please contact Sylvia Smith +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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