Changes to Part C of the Code Addressing Preparation and Presentation of Information and Pressure to Breach the Fundamental Principles
This document was prepared by the Staff of the International Ethics Standards Board for Accountants® (IESBA®).

The IESBA is a global independent standard-setting board. Its objective is to serve the public interest by setting high-quality ethics standards for professional accountants worldwide and by facilitating the convergence of international and national ethics standards, including auditor independence requirements, through the development of a robust, internationally appropriate Code of Ethics for Professional Accountants™ (the Code).

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BASIS FOR CONCLUSIONS:

CHANGES TO PART C OF THE CODE ADDRESSING PREPARATION AND PRESENTATION OF INFORMATION AND PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

This Basis for Conclusions has been prepared by staff of the IESBA. It relates to, but does not form part of, the changes to Part C of the Code of Ethics for Professional Accountants (the Code) addressing the preparation and presentation of Information, and pressure to breach the fundamental principles. The IESBA approved the changes under the extant structure and drafting conventions of the Code (“close-off document”) at its November/December 2015 meeting with the affirmative votes of 16 out of 16 IESBA members present. The revised provisions in the close-off document are not yet effective as they will need to be restructured under the proposed new structure and drafting conventions of the Code being developed under the Structure of the Code project. The IESBA will issue the revised provisions after the restructuring is completed, and will specify their effective date at that time.

Background

1. Over half of the world’s professional accountants are professional accountants in business (PAIBs) in the traditional sense, i.e., accountants who work on their own or in organizations other than public accounting practices. PAIBs are a very diverse constituency, and can work as employees or consultants in commerce, industry, education, and the public and not-for-profit sectors. Many are in a position of strategic or functional leadership, or are otherwise well-placed to collaborate with colleagues in other disciplines to help their organizations toward long-term sustainable success.

2. Given that many PAIBs play a fundamental role in the financial reporting supply chain and facilitate effective governance in organizations, it is in the public interest that the provisions of the Code applicable to PAIBs are appropriate and robust.

3. In February 2012, the IESBA established a Working Group to determine whether, in the light of reported accounting irregularities at certain companies, strengthening Part C of the Code would better promote ethical behavior by PAIBs. In addition, Part C had received less attention than other parts of the Code in recent years and, therefore, the IESBA determined that a review of the Part C provisions would be appropriate.

4. To understand the ethical issues on which PAIBs need support, in Q2 2012 the Working Group asked a number of IFAC member bodies with large proportions of PAIBs in their memberships about the issues on which PAIBs contact their member bodies’ ethics help lines. This survey identified a list of issues for the IESBA's potential consideration. To prioritize the issues identified, the Working Group undertook a broader survey of IFAC member bodies in Q3 2012.

5. Based on the survey findings as well as input from the IFAC PAIB Committee and the IESBA Consultative Advisory Group (CAG), the Working Group identified a number of key recommendations¹ for a review of Part C, namely that the IESBA prioritize consideration of the following matters:

¹ The Working Group’s final report and recommendations can be accessed here.
(a) The responsibility of PAIBs to produce financial reports that are faithful representations of the economics of transactions, and associated matters; and
(b) Pressure by superiors and others to engage in unethical or illegal acts;
(c) Facilitation payments and bribes.

6. In March 2013, the IESBA approved a project to address these matters in two separate phases, with the first two under Phase 1 and the third one under Phase 2.

7. The IESBA published its proposals relating to Phase 1 in an Exposure Draft (ED) in November 2014. The comment period for the ED closed on April 15, 2015. Comment letters were received from 42 respondents, including regulators, national standard setters, IFAC member bodies, other professional organizations, and firms. This Basis for Conclusions explains the more significant issues raised by respondents to the ED, and how the IESBA has addressed them.

8. The IESBA discussed this project with its Consultative Advisory Group (CAG) on five separate occasions: at the project commencement stage; prior to the issuance of the ED; and prior to the finalization of the close-off document.

**Preparation and Presentation of Information (Revised Section 320)**

**Scope of the Section**

9. Although extant Section 320 addresses all forms of information, the emphasis is on external financial information. The IESBA was of the view that it is important to raise the profile of information other than external financial information to recognize that PAIBs present both financial and non-financial information for internal and external purposes. Accordingly, the ED explained that information with which PAIBs may be involved includes both financial and non-financial information that may be made public or used for internal purposes. It also provided broader examples of such information to better illustrate the scope of this section. The requirements of the section would then apply consistently to all information, partly because a PAIB may not know whether his or her work may end up within external financial information.

10. A respondent expressed concern over the inclusion of “non-financial information” within the scope, particularly when considering association with information that is misleading or would influence contractual or regulatory outcomes inappropriately. The respondent was of the view that “non-financial information” would cover a wide range of information that could be beyond the PAIB’s expertise. Accordingly, it was suggested that the scope be limited to consideration of information within the PAIB’s expertise.

11. A few respondents suggested that approval of the information should also be covered, in addition to preparation and presentation, to account for situations such as where the PAIB is an audit committee member.

**IESBA Decisions**

12. The IESBA noted that Section 320 is intended to cover a wide range of financial and non-financial information, consistent with the nature of PAIBs’ work. The IESBA also noted that unintentional errors do not fall within the scope of Section 320 but are covered by extant Section 330. A PAIB

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2 Revised Section 320, Preparation and Presentation of Information

3 Section 330, Acting with Sufficient Expertise
should attempt to have an unintentional error rectified. If no remedial action is taken, then it becomes an intentional act which would bring the matter within the scope of Section 320. Further, the IESBA noted that extant Sections 130 and 330 require PAIBs not to be associated with any kind of information without the requisite expertise. The IESBA therefore did not accept the suggestion that the scope of the section should be restricted.

13. The IESBA, however, accepted to recognize the concept of “approval” in the revised section (see paragraph 320.2).

“Fair and Honest” Principle

14. The extant Code requires PAIBs to prepare information “fairly and honestly” but provides little guidance as to what this principle means. The ED therefore proposed guidance on the meaning of the term “fair and honest” to assist PAIBs in better understanding and adhering to the spirit of this principle.

15. A substantial body of respondents supported the proposed guidance. However, a number of them expressed concerns about aspects of the proposed guidance or its clarity, or made suggestions as to how the guidance could be enhanced. The main concern related to the need for clarity regarding how the “fair and honest” principle is connected to the five fundamental principles and whether the IESBA was intending to introduce another fundamental principle.

IESBA Decisions

16. The IESBA did not intend to introduce another fundamental principle. Instead, it intended to provide enhanced guidance on the meaning of the term “fair and honest.” The IESBA noted that the concept is related, or could be linked, to any one of the five fundamental principles. The IESBA therefore agreed that it would not be appropriate to link it to a specific fundamental principle.

17. Nevertheless, the IESBA determined to delete the term “fair and honest” from the revised section. Instead, the IESBA agreed to amend Section 320 to simply require PAIBs to record, maintain, prepare, approve or present information in accordance with the fundamental principles (see paragraph 320.2). Doing so thus eliminates potential confusion through the use of another term, leaving the guidance focused simply on compliance with the fundamental principles. The IESBA made a corresponding change to paragraph 320.3 for consistency.

Guidance on Misuse of Discretion in Order to Mislead

18. Discretion that is permitted under an applicable financial reporting framework may be misused to misrepresent an entity’s financial performance, financial position, or cash flows while still complying with the framework. The ED therefore proposed enhanced guidance on addressing the misuse of discretion when making judgments or assumptions in preparing or presenting financial information. The proposed guidance was intended to enable PAIBs to better recognize and deal with the issue of misuse of discretion, thereby assisting them to fulfill their responsibility to prepare or present information fairly and honestly.

19. A number of respondents expressed concerns about aspects of the proposed guidance or made suggestions as to how it could be enhanced as follows:

Section 130, Professional Competence and Due Care
(a) A few respondents suggested that the guidance should cover non-financial information as well as financial information.

(b) A respondent commented on the need to distinguish between the concepts of judgments (where a PAIB is expected to use expertise in applying a financial reporting standard) and discretion (where a PAIB is able to choose between which accounting treatment to apply).

(c) A few respondents suggested that the guidance should account for circumstances where the PAIB has no control over the discretion being exercised such as the timing or structuring of a transaction.

(d) Several respondents noted that it is possible for PAIBs to have a difference of opinion regarding accounting options to apply within a particular financial reporting standard, without intending to misuse the discretion that is afforded to the PAIB.

(e) A few respondents suggested that the consistency of the guidance could be improved by seeking to align it with wording from ISA 540\(^5\) (i.e., freedom from bias) relative to judgments and decisions made by management in making accounting estimates. It was also suggested that the guidance could be stronger, i.e., where there is the intention to mislead, management bias is fraudulent in nature; and that fraudulent financial reporting is often accomplished through intentional misstatement of accounting estimates (ISA 240).\(^6\) In this regard, it was suggested that consideration be given to using the ISA 540 example: “using an entity’s own assumptions for fair value accounting estimates when they are inconsistent with observable marketplace assumptions.”

**IESBA Decisions**

20. In relation to item (a), the IESBA noted that this point was already covered by the second subparagraph of paragraph 320.1 and the examples below that subparagraph. The IESBA nevertheless agreed to delete the word “financial” in the first sentence of paragraph 320.3 to avoid limiting the scope of the guidance to financial information only.

21. In relation to item (b), the IESBA accepted the point and has reflected it in paragraph 320.3.

22. In relation to item (c), the IESBA noted that section 320 is intended to address circumstances where the PAIB can exercise discretion in making a professional judgment. Situations in which a PAIB is not aware of the intentions of others (such as regarding the timing or structuring of a transaction) are outside the scope of section 320. Nevertheless, the IESBA noted that paragraph 320.6 provides guidance to PAIBs if they encounter information that they have reason to believe is misleading, even if they were not involved in, or knowledgeable about the intentions or judgments that motivated, the transaction.

23. In relation to item (d), the IESBA acknowledged that it is possible for PAIBs to have a difference of opinion regarding accounting options to apply within a particular financial reporting standard without intending to misuse the discretion. The IESBA, however, noted that the proposal addressed intent to misuse the discretion afforded under the applicable financial reporting framework, not legitimate differences of opinion. Accordingly, Section 320 does not apply to situations where there is no intention to mislead or to influence contractual or regulatory outcomes.

\(^5\) ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

\(^6\) ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*
24. Where there is no such intent, the IESBA noted that the PAIB should be guided by the fundamental principles of competence and due care. In cases where the disagreement involves one of the PAIBs being pressured by or pressuring another, Section 370 would provide guidance. Where both of the individuals are PAIBs and one of them has, or may have, an intention to mislead or to influence contractual or regulatory outcomes, paragraph 320.2 would address the intention of this PAIB, and paragraphs 320.6-8 would provide guidance to the other PAIB.

25. In relation to item (e), the IESBA determined that a general mention of the fundamental principles would be sufficient, recognizing that extant Part A of the Code already includes references to specific aspects of the fundamental principles such as bias (extant paragraph 120.1). The IESBA did not believe that the wording from ISA 540 would be appropriate as it relates to judgments and decisions made by management, rather than the PAIB.

26. In relation to the suggestion to make the guidance stronger, the IESBA noted that Section 320 recognizes that it is possible to violate the fundamental principles without violating a law or regulation. Where information is fraudulent, however, this would be a violation of law or regulation. Proposed Section 360 would be applicable in such circumstances. Accordingly, the IESBA has included a reference to proposed Section 360 (see paragraph 320.6). The IESBA also accepted the suggestion to use as an example the determination of fair value estimates in order to misrepresent profit or loss (see paragraph 320.3).

Purpose, Context and Audience

27. The ED proposed revised 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. The proposed guidance emphasized three important considerations with respect to the information being prepared: the purpose, context and audience of the information.

28. While many respondents supported the proposed guidance, others expressed concerns over the clarity and scope of the guidance and, in particular, whether it was clear that the guidance was intended to relate to instances where compliance with a reporting framework is not necessary or a reporting framework did not exist.

29. A few respondents suggested that guidance on the format of the presentation of the information was also needed.

IESBA Decisions

30. The IESBA considered that there would be a wide range of instances where no relevant reporting framework exists. Accordingly, it determined that addressing all possible circumstances where no reporting framework exists would lead to overly detailed guidance which would still be incomplete. However, it agreed to strengthen the guidance to require the PAIB to use professional judgment to identify and take into account the purpose, context and audience of the information. In addition, it agreed to enhance the guidance in the following two further respects:

(a) Emphasizing that such considerations would be especially applicable in situations where compliance with a relevant reporting framework is not required; and

(b) To avoid any ambiguity, making it clear that the PAIB may also consider clarifying the intended audience, context and purpose of information presented. (See paragraph 320.4.)

7 Proposed Section 360, Responding to Non-Compliance with Laws and Regulations
The IESBA noted that the format of the presentation of information will be linked to the existence of a relevant reporting framework. When no relevant reporting framework exists, paragraph 320.4 emphasizes the importance of taking into account the purpose, context, and audience, which implies that the format of presentation may be important.

**Reliance on the Work of Others**

The extant Code requires PAIBs to take “reasonable steps” to maintain in an appropriate manner information for which the PAIB is responsible. The IESBA recognized that PAIBs may often rely on the work of others in presenting information and that the use of the work of others should not absolve the PAIB of the responsibility to comply with the “fair and honest” principle. The ED therefore proposed that the PAIB should be required in these circumstances to take “reasonable steps” to be satisfied that work performed by others enables the PAIB to fulfill the obligations that flow from the “fair and honest” principle.

Many respondents supported the IESBA’s proposals. However, a number of other respondents felt that clarity was needed regarding actions that would constitute “reasonable steps” along with examples of these steps. A respondent also felt that the requirement to take “reasonable steps” could be unnecessarily onerous given the varying sizes and structures of employing organizations in which a PAIB may work. The respondent suggested that the PAIB should be permitted to use professional judgment when assessing the work of others.

A respondent suggested that the PAIB should consider the competence and experience of the individual providing the PAIB with the information. The respondent felt that the provisions in the ED needed strengthening to take into account the competence, capabilities and objectivity of the individual preparing the information.

**IESBA Decisions**

The IESBA believes that addressing the wide variety of possible situations that could arise in practice could lead to overly detailed guidance on what constitutes “reasonable steps”—guidance that would likely still be incomplete. The IESBA therefore determined to replace the requirement for the PAIB to take reasonable steps with the requirement to use professional judgment to determine what steps to take. Further, to clarify and enhance the guidance, the IESBA agreed to add guidance regarding factors a PAIB could consider in determining whether it would be reasonable to place reliance on the work of others. In addition, the IESBA agreed to add the phrase “if any” at the end of the requirement to use professional judgment to determine what steps to take in order to make clear that no steps may be needed in some circumstances. (See paragraph 320.5.)

With respect to the suggestion that the PAIB should consider the competence and experience of the individual providing the PAIB with the information, the IESBA believes that consideration of such matters would be covered under extant Sections 130 and 330. In particular, Section 130 requires the PAIB to (a) act diligently when performing professional activities or providing professional services, including acting in accordance with the requirements of an assignment carefully, thoroughly and on a timely basis; and (b) taking reasonable steps to ensure that those working under the PAIB’s authority have appropriate training and expertise. Section 330 requires the PAIB to seek appropriate expert advice and assistance when required, and to address threats to compliance with the fundamental principle of professional competence and due care. The IESBA therefore determined that there would be no need to address consideration of the competence and experience of the individual providing the information to the PAIB in Section 320.
Disassociation from Misleading Information

37. The extant Code requires a PAIB to take steps to be disassociated from misleading information but provides no guidance as to how to achieve this. The ED therefore proposed the following enhanced guidance to assist the PAIB when faced with association with misleading information:

- A number of practical steps a PAIB may consider in order not to be associated with misleading information.
- If it is not possible for the PAIB to avoid being associated with the misleading information, a number of possible steps the PAIB could take to resolve the matter.
- If the matter cannot be resolved by the PAIB, a requirement for the PAIB to refuse to be associated, or remain associated, with the misleading information.

In addition, the ED proposed to encourage the PAIB to document the facts and the communications with those with whom these matters were discussed.

38. Overall, respondents broadly supported the proposed guidance. A number of respondents, however, provided suggestions for how the guidance could be further enhanced, including:

(a) Recognizing that legal requirements may require the PAIB to breach the fundamental principle of confidentiality;
(b) Reminding the PAIB of his or her obligation of confidentiality under the Code; and
(c) Providing guidance on actions for the PAIB to take after escalation.

39. A few respondents noted that legal protection for a PAIB who whistle blows can vary by jurisdiction, hence placing the PAIB in a predicament on whether to whistle-blow and suffer potential retaliation.

40. A few respondents noted that the option of resigning may not be plausible in certain circumstances, notably where resignation could cause financial hardship. It was argued that by ending the relationship with an employing organization, a PAIB will lose all employment income, whereas a professional accountant in public practice (PAPP) would likely lose only one client in a portfolio of clients. It was therefore argued that the PAIB would be held accountable to a stricter standard than a PAPP.

IESBA Decisions

41. In relation to item (a), the IESBA noted that law or regulation generally requires confidentiality to be set aside on matters of non-compliance with laws and regulations (NOCLAR). The IESBA therefore agreed to include a cross-reference to proposed Section 360 which deals with a PAIB’s response to an act of NOCLAR or suspected NOCLAR (see paragraph 320.6).

42. In relation to item (b), the IESBA accepted that PAIBs would need to take into account confidentiality in the circumstances. The IESBA therefore added a reference to confidentiality in paragraph 320.7.

43. In relation to item (c), the IESBA agreed to expand the guidance regarding escalation of the matter to the PAIB’s supervisor and/or the appropriate level(s) of management or those charged with governance, in terms of requesting these individuals to take appropriate action to resolve the matter (see paragraph 320.6).

44. Regarding legal protection for whistle-blowing, the IESBA noted that whistle-blower protection laws are generally limited to disclosures of NOCLAR. Disclosure of acts that are unethical but that are
not NOCLAR is generally not protected. The IESBA did not intend Section 320 to address whistle-blowing.

45. Regarding the option of the PAIB resigning, the IESBA accepted that while the overriding principle should be that the PAIB should refuse to be or to remain associated with misleading information (see paragraph 320.8, consistent with extant paragraph 110.2), the Code should not indicate that the PAIB must resign, given the need to take into account the relevant circumstances. Accordingly, the IESBA agreed that Section 320 should not place a requirement on the PAIB to consider resigning from the organization but rather to guide the PAIB to consider whether it would be appropriate to resign.

Other Matters

Title of Revised Section 320

46. The ED proposed to change the title of Section 320 from “Preparation and Reporting of Information” to “Presentation of Information.” This reflected the IESBA’s intention to broaden the focus of the section beyond written reports. In this regard, the IESBA intended the term “presentation of information” to incorporate preparation and reporting of information. The IESBA proposed that change also to raise the profile of information other than external financial information to recognize that PAIBs present both financial and non-financial information for internal and external purposes.

47. A few respondents were of the view that the proposed title did not accurately describe the scope of the section. There was a suggestion that it should instead be “Preparation and Presentation of Information.” Another respondent noted that the International Auditing and Assurance Standards Board (IAASB) had, in revising ISA 200, decided to go with the term “preparation of financial statements” on the basis that preparation includes presentation. The respondent wondered whether there would be a logic to aligning the title of Section 320 with the wording used in ISA 200.

IESBA Decision

48. The IESBA took the view that if the title were to refer to only preparation of information, similar concerns may be raised as to why it does not refer to presentation, just as questions have been raised as to why the proposed title “presentation of information” does not refer to preparation. The IESBA noted that while the concept of “preparation of financial statements” is defined in the ISAs to include presentation of those financial statements and is well understood by auditors in that context, it may not be as well understood by the PAIB community without a similar definition in the Code. Accordingly, for clarity and to avoid confusion regarding the scope of the section, the IESBA determined that it would be simpler and clearer to refer to both preparation and presentation in the title of the section.

Professional Skepticism

49. A respondent suggested emphasizing in Section 320 the need for the PAIB to exercise an adequate level of professional skepticism throughout the process of preparing, presenting and/or filing information. The respondent felt that with the increasing complexity of business transactions

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a ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraph 12 states: “…Most financial reporting frameworks include requirements relating to the presentation of the financial statements; for such frameworks, preparation of the financial statements in accordance with the applicable financial reporting framework includes presentation.”
and the increasing need for judgment and estimates in the PAIB’s work, there is an increasing need for the PAIB to consider the integrity of the information that is being utilized.

IESBA Decision

50. The IESBA has agreed to participate in a joint initiative with the IAASB and the International Accounting Education Standards Board (IAESB) to further study the topic of professional skepticism insofar as it pertains to the standards the three standard-setting boards promulgate. A tripartite IAASB-IESBA-IAESB Working Group has been established for that purpose. The IESBA therefore determined that the topic of professional skepticism should be addressed further under that joint initiative.

Pressure to Breach the Fundamental Principles (New Section 370)

Overarching Requirements

51. The ED proposed to establish two new overarching requirements:

(a) A requirement for the PAIB not to allow pressure to result in a breach of the fundamental principles; and

(b) A requirement for the PAIB not to place pressure on others that would result in a breach of the fundamental principles.

52. Many respondents supported these proposed requirements. A number of suggestions, however, were made to improve the clarity of the wording and structure of the provisions.

IESBA Decisions

53. In response to the suggestions received, the IESBA determined to add an introductory paragraph to provide better context to the new section (see paragraph 370.1). The IESBA also agreed to divide the proposed paragraph 370.2 into two sub-paragraphs, with the first addressing the nature, types and sources of pressure, and the second containing both overarching requirements. In addition, the IESBA agreed to refine the wording of the requirement to make clear that the PAIB shall not place pressure on others that would result in the other individuals breaching the fundamental principles (see paragraph 370.2).

Types of Pressure

54. The ED proposed general guidance describing circumstances in which pressure could arise that could result in a breach of the fundamental principles, including a number of examples to illustrate the variety of situations in which such pressure could arise.

55. Many respondents supported the guidance. A number of respondents, however, suggested clarification was needed in certain areas, including the following:

- How to reconcile the fact that pressure to meet a deadline could result in a breach of the fundamental principles and yet still be considered routine;

- Whether pressure to breach the fundamental principles would arise more from unrealistic deadlines than from insufficient time to perform a task; and
• Whether a specific example could be provided to better illustrate the type of pressure that could arise from involvement in activities or transactions that could violate laws and regulations.

56. A respondent suggested that a definition of pressure be provided to assist PAIBs in understanding and addressing the threat that pressure might lead to a breach of the fundamental principles.

IESBA Decisions

57. The IESBA accepted that a PAIB could face routine pressure to meet a deadline which could then lead to a breach of the fundamental principles. The IESBA therefore agreed to delete the statement that scoped out routine pressures encountered in the workplace such as pressure to meet a reporting deadline. The IESBA also accepted to amend the illustrative example that referred to pressure from superiors to perform a task without sufficient time to better recognize that it is actually unrealistic deadlines that would create the pressure. In addition, the IESBA agreed to include a specific example of pressure to structure a transaction to evade tax to better illustrate the type of pressure relating to the commission of NOCLAR. (See paragraph 370.3.)

58. The IESBA did not believe that it would be practicable to define pressure given the subjectivity inherent in the concept. Instead, the IESBA agreed to make further enhancements to the examples of the ways in which inappropriate pressure might arise. In particular, in response to a suggestion from the CAG, the IESBA agreed to include as an example of pressure the suppression of information within internal audit reports that contain adverse findings (see paragraph 370.3).

Pressure to Breach the Fundamental Principles vs. Routine Pressure

59. The ED focused on all situations in which pressure from a superior or others could threaten compliance with the fundamental principles, scoping out routine pressure PAIBs may face within a workplace environment.

60. Respondent's views were mixed as to how to distinguish between pressure to breach the fundamental principles and routine pressure. In addition, a variety of suggestions were received to enhance the guidance and its structure and clarity, including how the PAIB should consider the employing organization’s corporate culture when facing pressure to breach the fundamental principles.

IESBA Decisions

61. After due consideration of respondents’ comments, the IESBA determined that there was no benefit to making a distinction between pressure to breach the fundamental principles and routine pressure. Accordingly, the IESBA agreed to delete the statement that Section 370 does not address routine pressure. The revised guidance now focuses on factors to consider in determining whether pressure, whether or not it is routine, could result in breach of the fundamental principles and how to deal with such pressure.

62. With respect to the suggestion that the PAIB consider the employing organization’s corporate culture, the IESBA believes that there is a greater likelihood of pressure that could result in a breach of the fundamental principles in a corporate culture that tolerates unethical conduct. In such circumstances, the IESBA believes that the PAIB needs to be more attuned to the culture and associated pressures that could result in a breach of the fundamental principles. The IESBA therefore agreed to recognize that a corporate culture that tolerates unethical behavior could be a
factor in determining whether pressure could result in a breach of the fundamental principles (see paragraph 370.4).

63. The IESBA also made a number of structural and editorial amendments to the guidance in response to the various suggestions received.

Responding to Pressure to Breach the Fundamental Principles, and Documentation

64. The ED proposed guidance outlining a number of actions the PAIB could consider after determining that the pressure would lead to a breach of the fundamental principles. The ED also proposed guidance regarding documentation.

65. Respondents generally agreed with the guidance, with many of them providing suggestions on how the clarity and structure of the guidance could be improved, including:

- Clarifying how the PAIB should raise concerns over pressure with the individual exerting the pressure;
- Clarifying how restructuring of responsibilities would resolve the issue given that the pressure may still remain but now placed on another individual; and
- Documenting the courses of action considered and how the matter was addressed.

IESBA Decisions

66. In response to the various comments and suggestions received, the IESBA revised and reordered the actions the PAIB may consider after having determined that the pressure would result in a breach of the fundamental principles. The revised guidance now reflects a more realistic progression of actions that the PAIB would take in practice.

67. In addition, the IESBA made the following further enhancements to the guidance:

- Replacing the phrase “engage in constructive challenge” with “discuss the matter,” given that the former could be interpreted as confrontational and would also be difficult to translate;
- Adding an example indicating that the PAIB may discuss the issues with the PAIB’s supervisor if that individual is not the one exerting the pressure;
- Clarifying that restructuring or segregating responsibilities would only be appropriate where doing so would eliminate the pressure to breach the fundamental principles; and providing an example to that effect; and
- Expanding the guidance on documentation to include documenting the courses of actions considered and how the matter was addressed. (See paragraphs 370.5 and 370.6.)

“Threats and Safeguards” Terminology

68. In developing the proposed Section 370, the IESBA deliberated the merits of using the “threats and safeguards” terminology for the section. The IESBA noted that the conceptual framework applies to the whole Code and that extant Sections 310\(^9\) and 320 already use the “threats and safeguards” terminology in addressing pressure. However, the IESBA also noted that while the conceptual framework underpins the whole Code, the terminology of “threats and safeguards” does not operate well when addressing the issue of pressure in Section 370. This is mainly because pressure is a

\(^9\) Section 310, Conflicts of Interest
circumstance to which the PAIB must respond to avoid breaching the fundamental principles as opposed to a threat that the PAIB should seek to eliminate or reduce to an acceptable level.

IESBA Decision

69. The IESBA considered the merits of both sides of the argument and determined not to draft Section 370 using the “threats and safeguards” terminology, even though the section would be consistent with the conceptual framework. The IESBA came to the overall view that what is important is to ensure that the section is understandable to PAIBs, and using the “threats and safeguards” terminology may make the section less understandable. The IESBA noted that even without using such terminology, the guidance in Section 370 would be helpful to PAIBs. The IESBA agreed that the linkage to the fundamental principles would be sufficient in this section. The IESBA also agreed that simplicity and clarity are important considerations, particularly from a non-accountant perspective.

70. In addition, the IESBA noted that it was planning a project to review the safeguards in the Code, including clarifying the meaning of the concept of safeguards. Accordingly, until such time as the safeguards in the Code are comprehensively reviewed, the IESBA determined that it would not be advisable to use the terminology of “threats and safeguards” in Section 370.

Matters Common to Sections 320 and 370

Tailoring Guidance to the PAIB’s Level of Seniority

71. Several respondents to the ED suggested that it may be beneficial for the guidance in the two sections to be tailored to take into account the seniority of the PAIB within the employing organization, with more stringent requirements placed on PAIBs within key management positions. A few respondents were of the view that when a PAIB places reliance on the work of others, a greater expectation should be placed on a “senior PAIB” to ensure that the work is “fair and honest.” Similarly, a few respondents suggested that there could be a role for senior PAIBs to assist in the establishment of policies and procedures relating to pressure.

IESBA Decisions

72. The IESBA noted that while its proposals in Section 360 differentiate between “senior PAIBs” and other PAIBs, there is no such distinction elsewhere in the Code. The IESBA considered that there are logical grounds for such differentiation in the NOCLAR proposals in that an act of NOCLAR is a matter that could have significant public interest implications. This therefore gives rise to expectations of an appropriate response, the nature and extent of which will depend particularly on the seniority of the PAIB. The IESBA determined that such a distinction would not be suitable for guidance in other areas addressed by the extant Part C.

73. The IESBA also noted that all PAIBs would be required to take appropriate action, but expected actions will vary according to the nature, size and structure of the employing organization as much as the PAIB’s seniority. Given the variety of situations in which PAIBs are employed, including the variety of organizational structures that exist, the IESBA agreed that clearly separating responsibilities according to seniority in those two sections would not be practicable. The IESBA also reviewed all the examples provided and determined that the guidance in the two sections would be useful to PAIBs at any level in an employing organization.
74. The IESBA, however, determined that it would be appropriate to amend paragraph 300.5\textsuperscript{10} to better emphasize that the more senior the PAIB, the greater will be the PAIB’s ability and opportunity to access information and to influence policies, decisions made and actions taken by others involved with the employing organization. The IESBA also agreed to emphasize in paragraph 300.5 the expectation that a PAIB would encourage and promote an ethics-based culture in the employing organization, having regard to the PAIB’s position and seniority in the organization, and to the extent the PAIB is able to do so.

75. The IESBA considered adding a cross reference to the revised paragraph 300.5 in all sections of extant Part C to ensure that this revised guidance is not overlooked. The IESBA concluded that the Code needed to be considered in its entirety. Accordingly, rather than including numerous cross references to paragraph 300.5, the IESBA determined that it would be more appropriate to restructure Section 300 into an introductory subsection and a “Key Provisions” subsection applicable to all of extant Part C. The effect of this change in structure would be to highlight those key provisions and eliminate the need to include many cross-references to the overarching guidance in Section 300 in other sections of Part C.

**Salaried Employee**

76. A respondent suggested that it would be useful to clarify in paragraph 300.3 that the description of a salaried employee may include executive management such as a chief financial officer, in the event that the PAIB is not a “director” of the entity.

**IESBA Decision**

77. While the definition of a PAIB in the Code is clear on this point, in considering this suggestion the IESBA agreed to delete the term “salaried” from paragraph 300.3 in order to prevent confusion.

\textsuperscript{10} Extant Section 300, *Introduction* (PAIBs)