

**Pressure to Breach the Fundamental Principles (Section 370)****How the Project Serves the Public Interest**

Over half of the world's professional accountants are PAIBs in the traditional sense – being accountants who do not work in public accounting practices. PAIBs are a very diverse constituency, and work as employees or consultants in commerce, industry, financial services, 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.

The project will serve the public interest as a result of those provisions of the Code applicable to PAIBs being appropriate and robust, enabling PAIBs to better deal with inappropriate pressure on them, particularly (but only only) with respect to the preparation and reporting of information. It will thus contribute to the public interest because such pressure may undermine the quality of financial information on which users rely.

Surveys conducted by the IESBA indicate that the most important problem faced by PAIBs is the pressure they face to violate the fundamental principles of the Code of Ethics, and about which they desire additional guidance. The extant Code focuses on pressure related to financial interests. Research has indicated that pressure is exerted on PAIBs at all levels and the motivations are not limited to financial interests. In addition, the Code is silent about the responsibilities of PAIBs who might exert pressure on others to violate the fundamental principles. A new Section 370 providing guidance on how to deal with pressure will reduce threats to the fundamental principles and therefore support the public interest.

**Structure of Section 370**

1. The Task Force considered Section 370 and proposes a revised and more logical sequence for Section 370 that provides guidance to a PAIB facing pressure:
  - Description
  - Examples
  - Evaluate the Pressure
  - Determine whether the pressure would lead to a breach of the fundamental principles
  - Steps to mitigate the pressure.
2. The Task Force proposed in December 2013 that the Section should be based on “pressure to engage in unethical or illegal activities” because these activities are more objective than pressure, which is subjective, and it would be very difficult for the PAIB to determine whether pressure is inappropriate. The Task Force recognized that what a PAIB may believe to be inappropriate pressure may actually be appropriate. The IESBA and CAG did not support using pressure to engage in “unethical or illegal activities”. The Task Force proposes to replace “unethical or illegal activities” with “pressure to breach the fundamental principles”. This also simplifies the wording.
3. If the section were drafted according to the conceptual framework it would require an evaluation of the significance of the pressure and for pressure to be eliminated or reduced to an acceptable level.

The Task Force believes that PAIBs are not sufficiently familiar with the conceptual framework for an evaluation of the significance of a threat to provide practical guidance to the PAIB. It therefore recommends that the wording does not include an evaluation of the significance of the pressure but the guidance should focus on determining whether the pressure would lead to a breach of the fundamental principles.

4. The Task Force proposes a number of steps to help the PAIB mitigate the pressure. The guidance has been called “steps” as suggested at the IESBA meeting in December 2013 as some members do not believe that the safeguards proposed in December by the Task Force are safeguards as defined in the Code.
5. Drafting the section according to the conceptual framework would require the pressure to be eliminated or reduced to an acceptable level. A PAIB upon whom pressure is being exerted might not be able to eliminate the pressure because they are not exerting the pressure. The Task Force believes that mitigating the pressure would be more easily understood by the PAIB than reducing it to an acceptable level. The wording requires the PAIB to take the steps that are available to mitigate the pressure so that it would not result in a breach of the fundamental principles. This recognizes that the PAIB may be unable to mitigate the pressure as they are not the person that is exerting it.
6. Some IESBA members thought that some of the proposed safeguards/steps should be implemented before the pressure arises. These safeguards/steps have been put in a separate sub-section with a sub-heading entitled “the creation of an ethics based culture”. The Task Force proposes moving the paragraphs on the creation of an ethics based culture to Section 300 because they apply generally to the work of the PAIB.
7. The wording recognizes that if the PAIB is pressured to breach the fundamental principles and it is not possible to mitigate that pressure, then it may be appropriate to resign.

### **Downward Pressure**

8. The Task Force proposed in December that downward pressure to engage in unethical or illegal acts should be prohibited. Some IESBA members, however, noted that it would be difficult to prohibit downward pressure because pressure is subjective. It was suggested that the Task Force consider a more objective approach to the proposal. The Task Force proposes “Pressure that would lead to a breach of the fundamental principles” as an objective measure of pressure.

### **Acknowledging Diversity of Ethical Norms**

9. There were differing opinions from CAG representatives and IESBA members as to whether it is appropriate to alert the PAIB to a diversity of ethical norms. Some said it is impossible to refer to this without appearing to condone it. Others said it is an important issue. The proposed wording was: “Consideration of the effect that the culture of the organization or subset thereof, the industry and the country may have on ethical norms may assist the professional accountant when evaluating such threats.”
10. The Task Force believes that different ethical norms do exist between organizations, industries and countries and that PAIBs function in this environment. It is therefore appropriate to recognize this reality when providing practical guidance to PAIBs. The original paragraph has been deleted and the diversity of ethical norms would be included within the corporate culture and leadership, which

is included as a factor that the PAIB would consider whether the pressure could lead to a breach of the fundamental principles.

**Matter for Consideration**

1. Do IESBA members have any comments on the draft wording of proposed Section 370?
2. Do IESBA members have any comments on the way that the diversity of ethical norms is addressed in the draft wording?