

Review of Part C of the Code – Phase I Issues Pertaining to Restructuring and Task Force Proposals

How the Project Serves the Public Interest

Over half of the world's professional accountants are professional accountants in business (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.

All organizations require relevant and reliable information in order to conduct their affairs. In addition, interested external parties (such as investors, suppliers, customers, creditors and government agencies) require relevant and reliable information to assess an organization's situation, to ensure accountability to them or for them to make decisions about the organization. It is also in the public interest that PAIBs who are responsible for the preparation of such information do so honestly, and that the information they present is not false, misleading, or prepared or presented recklessly or negligently.

Enabling PAIBs to deal with inappropriate pressure on them, with respect to the presentation of information, will contribute to the public interest because such pressure may lead to the breach of the fundamental principles including undermining the quality of financial and other information on which users rely.

1. As noted at **Agenda Item 7**, the IESBA approved a close-off document for Phase 1¹ of the project under the format and drafting conventions of the extant Code at its November/December 2015 IESBA meeting. This close-off document was restructured and presented to the Board at its March 2016 meeting for preliminary consideration. It is planned that this proposed restructured text will be included in the second Structure of the Code exposure draft (ED-2).
2. In response to strong support from respondents to the [Improving the Structured of the Code of Ethics for Professional Accountants – Phase 1 ED](#) (Structure ED-1), the Task Force has agreed to retile “Part C” to be “Part B” (see Agenda Item 2-A for a further discussion of the feedback on Structure ED-1. However, for the purpose of this paper, reference is made to the extant titles, unless otherwise stated.

Feedback Received at the March 2016 Board meeting

3. In response to feedback received at the March 2016 meeting and offline feedback from IESBA members, the significant changes that have been made to the restructured text of the Part C Phase 1 close-off document is included below:

Footnote Detailing the Definition of a Professional Accountant in Business (PAIB) (Question 1)

4. The Task Force initially proposed dropping the footnote at paragraph 200.1 that details the definition of a PAIB because in their view, that footnote duplicates the glossary definition. However, the Task Force subsequently noted that the Structure Drafting Guidelines indicate that a reference be made

¹ Phase I involves a review of Sections 300, *Introduction*; 310, *Conflicts of Interest*; 320, *Preparation and Reporting of Information*; 330, *Acting with Sufficient Expertise* and 340, *Financial Interests* of the extant Code.

to the term “professional accountant in business”, on the first instance that it appears in the same Section. Subsequent references are made to either “professional accountant” or just “accountant”. The Task Force notes that there could be confusion about to whether the terms “professional accountant” and “accountant”, when used in Part B of the proposed restructured Code are referring to a PAIB, or a professional accountant in public practice (PAPP).

Task Force Proposal

5. With input from the Chair and Staff of the Structure Task Force, the Task Force considered, but opted against the following suggested revisions to clarify the footnote:

- Use the acronym “PAIB” in place of “professional accountant” or “accountant”.
- Addition of guidance in brackets after the phrase “professional accountant in business” clarifying that a PAIB will now be referred to as “professional accountant” or “accountant”.

The Task Force is of the view that while Structure Drafting Guidelines do not explicitly prohibit the above options, they would not be consistent with the drafting conventions in other parts of the Code.

6. Instead, the wording of the footnote has been amended to clarify that that the terms “professional accountant” and “accountant” refer to a PAIB and that while the guidance in the restructured Part B is aimed at PAIBs, it might also be applicable to PAPPs when performing professional activities pursuant to the accountant’s employment or ownership relationship with their firm.

Revised Restructuring of Extant Paragraph 310.4 (Question 2)

7. At the March 2016 Board meeting, the Task Force explained that the primary aim of extant paragraph 310.4 was to encourage a PAIB to seek guidance when addressing a conflict of interest, not to require the PAIB to consider the fundamental principle of confidentiality when making disclosures. Based on the above thinking, the Task Force, in an exception to the restructuring guidelines, proposed placing an application paragraph with guidance on addressing a conflict of interest before the requirement for the PAIB to consider the fundamental principle of confidentiality when making disclosures.

Task Force Proposal

8. In response to feedback from IESBA, the Task Force reconsidered its initial proposal, noting that the focus of extant guidance should not be lost as a result of restructuring. The Task Force decided to restructure the guidance by changing the requirement to consider the fundamental principle of confidentiality when making disclosures into a reminder. By doing so the focus of the restructured guidance remains on actions a PAIB should take when addressing a conflict of interest.

Revised Restructuring of Extant Paragraph 320.2 (Question 3)

9. The phrase “who is responsible for recording, maintaining, preparing, approving or presenting information” was removed from the initial restructured guidance in order to streamline it. Based on feedback received, a streamlined version of the phrase has been added back into the restructured text to ensure clarity over the scope of the guidance.

Task Force Proposals

10. In addition, as a result of views expressed at the March 2016 meeting, guidance in the restructured paragraph 220.5 A1 has been reclassified as application material. It had initially been presented as part of the requirement in restructured R220.5.

11. In response to the feedback from IESBA, the Task Force considered how the wording of the examples in 220.5 A1 could be refined, and characterized in a more positive way so as to direct the accountant to take the most appropriate actions, rather than avoid inappropriate actions. The Task Force believed that, while the view was valid, revisions to the examples based on this suggestion would constitute redrafting not restructuring. It also noted that the Board had discussed the finalized guidance in the extant paragraph 320.2 extensively during Phase 1 and concluded that it should not be redrafted at this stage.

Revised Restructuring of Extant Paragraph 320.3 (Question 4)

12. The Task Force initially restructured extant paragraph 320.3 by creating a requirement paragraph clarifying that a PAIB should not prepare or present information with the intention of misleading and an application paragraph detailing the context of the requirement. IESBA members indicated that the proposed restructure resulted in the focus of the guidance being lost. The extant guidance explains that a PAIB should not use discretion to mislead and then explains the parties and stakeholders that the PAIB could mislead. The restructured text appears to provide guidance on performing a professional activity that is beyond a reporting framework and the need to then consider the target audience of the information being produced to ensure it is not misleading.

Task Force Proposals

13. Based on feedback received, the Task Force made the following amendments to the proposed R220.6:
- Addition of a preface clarifying the context of the requirement to ensure it is not construed incorrectly.
 - Editorial changes to clarify that the requirement is for the accountant not to exercise discretion when preparing or presenting information with the intention of misleading. The initial restructured text indicated a requirement not to prepare or present information with the intention of misleading.

Matters for IESBA Consideration

1. IESBA members are asked for views about the revisions in **Agenda Item 7-B-1**.
2. IESBA members are also asked for their views on the questions addressing specific matters in the column entitled "Comments" in **Agenda Item 7-C**.