

Review of Part C¹ of the Code – Phase 2

Applicability of the Provisions in Part C to Professional Accountants in Public Practice (PAPPs)

Introduction

1. In 2012, the IESBA commenced work with the aim of exploring whether Part C needed to be strengthened to better promote ethical behavior by professional accountants in business (PAIBs). As noted in **Agenda Item 7**, the IESBA has concluded Phase 1 of the Part C project, which resulted its March 2016 Part C close-off document, *Changes to Part C of the Code Addressing Preparation and Presentation of Information and Pressure to the Breach of the Fundamental Principles*.
2. As part of Phase 2 of the project², the Task Force is exploring the applicability of the provisions in Part C to PAPPs.

Previous Considerations

3. The Task Force reviewed the extant Code and concluded that it is possible for PAPPs to find themselves in ethically problematic circumstances that do not involve clients and hence face the same issues and ethical dilemmas as PAIBs. Accordingly, the Task Force is of the view that there is a need for clarifications in the Code about whether there are circumstances in which the provisions in Part C for PAIBs should also apply to PAPPs.

Board Feedback from March 2016 meeting

4. The IESBA asked that the Task Force refine its proposed wording for a new explanatory paragraph that would be added to the Code to clarify the location of the relevant guidance in the Code that would assist all PAs as they encounter circumstances that create ethical issues. IESBA members provided editorial comments to improve the proposed explanatory paragraph, and also asked that the Task Force consider including signposting within the Code to direct PAs to the new guidance.

Issues and Task Force Proposals

Revisions to Explanatory Paragraph and Signposting

5. The majority of the Task Force is of the view that signposting was not advisable, since the applicability of guidance within Part C to a PAPP would be dependent on the PAPP's particular circumstance. The Task Force is of the view that there is no guidance within Part C that can be entirely disregarded and concluded that signposting might result in a PA inadvertently overlooking guidance that might be relevant depending on certain circumstances.
6. Based on the comments received at the March 2016 meeting, the Task Force has agreed to the following revisions to the explanatory paragraph:

When facing an ethical issue, a professional accountant in public practice shall consider the context within which the issue has occurred. Where the a professional accountant in public practice is performing professional activities pursuant to the accountant's employment or ownership relationship with the employing

¹ Part C, *Professional Accountants in Business* (PAIBs). For the purpose of this paper, reference is made to extant headings, unless otherwise stated.

² Phase 2 also involves a review extant Section 350, *Inducements*.

organization, for example a firm, there might be guidance in Part C that is applicable to those circumstances. ~~If so, the accountant shall consult relevant provisions and comply with them.~~

Location of Explanatory Paragraph

7. The Task Force also considered where the explanatory paragraph should be placed within the restructured Code. The paragraph could be placed in Part A³ only. However, the Task Force noted this approach bears a risk that this new guidance might be overlooked by users of the Code who consult only Part B when seeking guidance. The Task Force also considered having the explanatory paragraph in Part A, with the inclusion of a reference in Part B to direct readers to the new guidance. The Task Force observed that this approach would be in line with the Structure Drafting Guidelines, and would avoid duplication of the same material in Parts A and B of the Code.
8. However, the Task Force noted that the Structure Drafting Guidelines permit the duplication of guidance if it is felt that it would enhance the Code. The Task Force notes the use of this approach in restructuring provisions pertaining to communication with those charged with governance (TCWG), where it was determined that the provisions should be removed from Part A and duplicated in both Parts B and C. On that basis, the Task Force is of the view that the explanatory paragraph should be duplicated in Parts A and B. The Task Force believes that:
 - (a) The issue of applicability of Part C to PAPPs is sufficiently important to highlight it in both Parts A and B; and
 - (b) An adequately drafted reference paragraph would not be much shorter than the explanatory paragraph; hence the benefit of streamlining guidance is limited. The Task Force considered possible wording for a reference paragraph before arriving at this conclusion.
9. The Task Force then considered where the explanatory paragraph should be placed in the Parts A and B, noting that, since the explanatory paragraph contains two shall statements, it would need to be classified as a requirement paragraph in the restructured text.

Explanatory Paragraph within Part A

10. On review of the restructured Part A, the preference of the Task Force is to place the explanatory paragraph after paragraph 120.3 A1.⁴ Section 120 has been given more prominence in the proposed restructured Code and hence will likely be the most utilized Section within the proposed restructured Code. The Task Force also notes that paragraph 120.3 A1 includes new application guidance that provides a roadmap to PAs, and notes that the conceptual framework applies to all PAs. It also notes that there are additional provisions in [restructured] Part B that apply to PAIBs and in [restructured] Part C that apply to PAPPs.
11. The Task Force also considered having this explanatory paragraph in Section 100, after paragraph

³ Part A, *Introduction to the Code and Fundamental Principles*

⁴ Paragraph R120.3 A1 of Section 120, *The Conceptual Framework* in **Agenda Item 3B** states that “Professional accountants are required to apply the conceptual framework in order to comply with the fundamental principles in a wide variety of roles and circumstances. Parts B, Professional Accountants in Business and Part C Professional Accountants in Public Practice, including the International Independence Standards in C1 and C2, set out additional requirements and application material for applying the conceptual framework.”

R100.3.⁵ The Task Force notes that paragraph R100.3 clarifies the circumstances in which a PA would be expected to follow the Code and is of the view that the explanatory paragraph could complement this material by explaining that provisions within the restructured Code needs to be considered holistically.

12. The Task Force noted that although Section 100 includes material that clarifies the purpose of the Code and what is expected of a PA, it does not have as much prominence as Section 120. Accordingly, the Task Force is of the view that having the explanatory material in Section 100 would likely receive less attention from readers of the restructured Code.

Explanatory Paragraph within Part B

13. The Task Force also considered where within Part B it might be appropriate to position the new explanatory paragraph. The Task Force is of the view that the explanatory paragraph should be placed within restructured Section 300⁶ in order to clarify to a PAPP that his or her consideration of the provisions within the Code should not be limited to the material in restructured Part C and that the provisions in restructured Part B might also be relevant and therefore applicable to PAPPs.
14. The Task Force notes that the provisions in restructured Section 300 is focused on describing considerations for PAPPs to apply the conceptual framework. As a result that Task Force is of the view that there is no obvious positioning within Section 300 for an explanatory paragraph with general information that explains that guidance within the Code needs to be considered holistically. However, the Task Force considered the following potential locations within Section 300, in order of preference:
 - (a) After R300.2⁷. This would be in line with the preferred location of the explanatory paragraph within restructured Part A, i.e., immediately after reference is made to the conceptual framework. While the explanatory paragraph would not be within the introduction section, it would appear sufficiently early in the guidance to ensure it is adequately prominent to avoid being overlooked.
 - (b) Immediately after restructured paragraph 300.1.⁸ Paragraph 300.1 explains the nature of the guidance within the restructured Part C. By adding the explanatory paragraph here, clarification would be provided to a PAPP using the Code that consideration of guidance in the restructured Part B might be necessary. The Task Force noted that, as per redrafting guidelines, requirement paragraphs are not permitted within the Introduction section. Hence, this option

⁵ Paragraphs R100.3 of Section 100, *Compliance with the Code* of Structure ED-1 states: "A professional accountant, acting in the public interest, shall comply with the Code. There might be circumstances when laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code."

⁶ Section 300, *Application of the Conceptual Framework for Professional Accountants in Public Practice*

⁷ Paragraph R300.2 of Section 300 in Safeguards and Structure EDs-1 states that "A professional accountant shall comply with each of the fundamental principles and apply the conceptual framework set out in Section 120 to eliminate threats to compliance with those fundamental principles or to reduce them to an acceptable level."

⁸ Paragraph 300.1 of Section 300 in Safeguards and Structure EDs-1 states that "This Part of the Code describes considerations for professional accountants in public practice in the application of the conceptual framework set out in Section 120. This Part does not describe all of the facts and circumstances, including professional services, interests and relationships, that could be encountered by accountants that create or might create threats to compliance with the fundamental principles. Therefore, accountants are encouraged to be alert for such facts and circumstances."

would require a new heading after paragraph 300.1 after which the explanatory paragraph would be placed.

Reference to the Explanatory Paragraph in the Guide to the Code

15. The Task Force is of the view that a reference to the explanatory paragraph should also be included in the Guide to the proposed restructured Code.

Matters for IESBA Consideration

1. The IESBA is asked for their views on:
 - (a) The revised wording of the explanatory paragraph.
 - (b) Where to place the explanatory paragraph within Parts A and B.