

Part C Phase I—Issues Paper

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, in order 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 better deal with the issue of 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 in particular undermining the quality of financial and other information on which users rely.

I. Background

1. At the September 2015 IESBA meeting, the Task Force presented:
 - i. A summary of significant comments received on the exposure draft (ED) relating to the proposed Section 370, and matters common to Sections 320 and 370 that were not discussed at the June/July 2015 IESBA meeting, along with related Task Force proposals; and
 - ii. Proposed revisions to Section 320 and Section 300 based on Board feedback received at the June/July 2015 meeting.
2. This agenda paper is structured as follows:
 - I. Proposed Section 370
 - A. Overarching Requirements and Examples of Pressure
 - B. Responding to Pressure to Breach the Fundamental Principles
 - II. Section 320 and Paragraph 300.5

I. Proposed Section 370

A. Overarching Requirements and Examples of Pressure

The ED proposed to establish two new overarching principles in Section 370:

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

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

Based on comments received on the ED:

- An introductory paragraph was added to Section 370 to provide a context to the section along with additional wording in the exposed paragraph 370.2 to clarify that the PAIB should not place pressure on others that would result in a breach of the fundamental principles.
- Cross references to other parts of the Code were moved under the respective examples of pressure.
- Additional wording was added to clarify that the lists of examples are not exhaustive, examples were added to the proposed guidance and several examples were clarified.

3. The main Board comments received and related Task Force responses/proposals are as follows:

	Feedback Received	TF Responses/Proposals
1.	The guidance could be improved by firstly addressing how to deal with pressure being placed on the PAIB and then the issue of a PAIB placing pressure on others.	Paragraph 370.2 in Agenda Item 1-B has been divided into two sub-paragraphs. The first considers the nature, types and sources of pressure that a PAIB may face. The second sub-paragraph contains both of the primary requirements of Section 370, in the order suggested by the comment.
2.	A PAIB placing pressure on others is a graver issue than a PAIB being subjected to pressure by another. The guidance on placing pressure on others should thus be placed earlier in the Section to emphasize that it is more important.	It can be debated which aspect of pressure (placing pressure on others or being subject to pressure) is the more important. Both aspects have been placed together in the second sub-paragraph of the revised paragraph 370.2 in Agenda Item 1-B, giving them equal prominence.
3.	Editorial suggestion: The phrase "...the professional accountant knows, or has reason to believe..." in the original paragraph 370.3 (now the proposed second sub-paragraph of 370.2 in Agenda Item 1-B) could be replaced by "knows or should know".	It would be difficult to establish what a PAIB "should know". In addition, the phrases "knows or has reason to believe" and "has reason to believe" occur on more

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		occasions within the Code than “knows or should know”. ¹
4.	It could be questioned whether a PAIB placing pressure on another individual resulting in that individual breaching the fundamental principles constitutes a breach of the fundamental principles. The original proposed wording in the ED would be thus more suitable than the revised wording.	In order to avoid confusion, the guidance in the sub-paragraph of 370.2 in Agenda Item 1-B has been changed to the original proposed wording.
5.	Editorial suggestion: The formatting in the original paragraph 370.4 (now the proposed paragraph 370.3 in Agenda Item 1-B) should be corrected to clarify that the references to other parts of the Code are not sub headings.	The formatting has been adjusted by indenting the cross references.
6.	A CAG Representative at the September 2015 IESBA CAG meeting informed that a survey of internal auditors reported that the most common pressure faced is pressure to suppress adverse information in internal audit reports.	Another example has been added to the proposed paragraph 370.3 in Agenda Item 1-B.

B. Responding to Pressure to Breach the Fundamental Principles

The ED proposed guidance that the PAIB may wish to consider after determining that the pressure being faced would lead to a breach of the fundamental principles.

Respondents to the ED generally agreed with the guidance.

4. The main Board comments received and related Task Force responses/proposals are as follows:

	Feedback Received	TF Responses/Proposals
7.	Editorial suggestion: The phrase “regulatory agencies” in the original paragraph 370.5 (now the proposed paragraph 370.4 in Agenda Item 1-B) should be changed to be line with other parts of the Code.	The proposed wording has been changed to “regulatory bodies.”
8.	Editorial suggestion: The guidance in the penultimate bullet point in the original 370.6 (now the proposed paragraph 370.5 in Agenda Item 1-B) should include a reference to ethics and	The proposed wording has been changed to include a reference to ethics and whistleblowing policies.

¹ For information, there is only one occurrence of the phrase “knows or should know” in the Code, and this appears in paragraph 150.1: “The principle of professional behavior imposes an obligation on all professional accountants to comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know may discredit the profession. ...”. The phrase “reason to believe” is used 20 times in various places in the extant Code.

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	whistleblowing policies to align it with guidance in paragraph 300.5.	
9.	Comments in items 10-12 below focus on the proposed guidance on restructuring (proposed paragraph 370.5 in Agenda Item 1-B):	
10.	The guidance on restructuring would appear impractical as the PAIB would not be able to change the way an entire organization is structured.	<p>The guidance suggests that a PAIB's personal responsibilities may be restructured, not a restructuring of the entire organization.</p> <p>Such a restructuring or reassignment of responsibilities may involve only the PAIB in question, and thus not involve a change in the organization's structure.</p> <p>Paragraph 300.5 (see point 19 below) addresses the issue of the responsibility of more senior PAIBs for broader changes in organizational structure and policies, and influence on decisions and actions.</p>
11.	Requesting a restructuring does not absolve the PAIB from meeting his or her responsibilities in the Code if the restructuring simply results in another individual being subject to the same pressure.	<p>In addition to removing themselves from the situation that involves pressure to violate the fundamental principles, the PAIB may consider acting to prevent pressure being exerted on others in the same position. This may involve a change in the organization's policies or procedures and possibly an aspect of its organizational structure. In addition, the example provided specifically refers to "being replaced by another person who does not have that conflict of interest" so it should be clear that this action presumes</p>

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		<p>that such an individual would not be subject to the same pressure.</p> <p>Paragraph 300.5 (see point 19 below) addresses the issue of the responsibility of more senior PAIBs for broader changes in organizational structure and policies, and influence on decisions and actions.</p> <p>The proposed guidance avoids placing a greater responsibility on PAIBs than is placed on them in the proposed Section 360 in comparison to non-compliance with laws and regulations.</p>
12.	The guidance on addressing conflict of interests could be enhanced by suggesting that the PAIB not only remove themselves from the position of conflict, but look to remove themselves entirely from any involvement in the matter that is at conflict.	The second subparagraph of paragraph 370.2 requires that PAIBs not be associated with pressure that would result in violation of the fundamental principles. Additional wording has been added to the proposed guidance clarifying that the PAIB should avoid being associated with the matter entirely (see paragraph 370.5, 4 th bullet).

II. Section 320 and Paragraph 300.5

Significant comments to the ED on the proposed revisions to Section 320 were presented at the June/July 2015 Board meeting. Based on feedback received, additional revisions were made to Section 320 and presented at the September 2015 Board meeting.

The main changes made to Section 320 were: the deletion of the term “fair and honest” to focus guidance on the fundamental principles; the inclusion of an additional example in paragraph 320.3 to align the guidance with ISA 540² and the removal of the term “reasonable steps” along with addition of “steps” to take when relying on the work of others.

In addition, several respondents to the ED noted that it may be beneficial for the guidance to differentiate between “senior” and “other” PAIBs. Guidance that differentiates between “senior” and “other” PAIBs was considered unfeasible. However, amendments were made to paragraph 300.5 to clarify that the

² ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*

responsibility of a PAIB increases in accordance with the PAIB's level of seniority in the employing organization.

5. The main Board comments received and related Task Force responses/proposals are as follows:

	Feedback Received	TF Responses/Proposals
13.	Jurisdictions are increasingly encompassing the Code into local laws. The proposed paragraph 320.2 contains terms such as "accurately" and "completely" (not used by the International Accounting Standards Board) which if interpreted literally would set a standard that would be difficult, if not impossible, for a PAIB to meet, thus resulting in the PAIB breaking the law.	The Board had previously decided not to align guidance in the Code with that of other standard-setting bodies, specifically in relation to financial reporting standards. Consistent with that decision, no changes to these terms were made in the ED, nor did respondents express any concerns about them. Accordingly, the Task Force does not propose that changes be made.
14.	Editorial suggestions:	
15.	In paragraph 320.6, the guidance states that the professional accountant "shall obtain an understanding of the matter" once the PAIB is associated with misleading information. Once it has been concluded that the information is misleading, the next step would be for the PAIB to take some form of action.	The phrase "obtain an understanding of the matter" has been deleted, in order to focus on the actions to be taken.
16.	In paragraph 320.7 the first bullet point suggesting consulting with legal counsel should be moved as consulting with legal counsel is unlikely to be the first step that a PAIB would take.	Consulting with legal counsel has been moved to the end of the list.
17.	Paragraph 320.8 should contain a requirement to document any necessary information relating to the matter.	Encouragement, rather than a requirement, to document matters is the most common approach in the Code. Since documentation may be in the PAIB's own interest, a requirement is not considered necessary.
18.	Comments on differentiating between "senior" and "other" PAIBs:	

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19.	<ul style="list-style-type: none"> There may be a benefit in differentiating between “senior” and “other” PAIBs in paragraph 320.6 to provide guidance specifically for non-senior PAIBs on actions to take to avoid remaining associated with misleading information if the information remains misleading after all feasible options to resolve the matter have been exhausted. The Code is written with the expectation that professional judgement is used to account for the competence and seniority of the PAIB when deciding how best to apply the guidance. 	<p>The Code should aim to provide a single standard of behavior for all PAIBs, while accommodating the fact that the feasibility of some actions may depend on the position and responsibilities of the PAIB within the employing organization, and the size and structure of the employing organization. At the same time, the Code needs to recognize that exceptional situations exist (such as non-compliance with laws and regulations) where differentiated guidance may be merited. Other than in such exceptional situations, differentiated guidance would need to consider a wide variety of factors and would thus be impractical.</p> <p>With respect to seniority, the revised guidance in the first subparagraph of paragraph 300.5 recognizes that all PAIBs are responsible for acting in the public interest, while more senior PAIBs may be in a better position (since they have a greater sphere of influence) to access information and to influence policies, decisions and the actions of others.</p> <p>In addition, the revised second sub-paragraph of paragraph 300.5 clarifies and expands on the responsibility of more senior PAIBs for encouraging an ethics-based organizational culture. It also states explicitly the responsibility of more senior PAIBs to provide leadership in relation to ethical issues.</p>

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		<p>At the same time, by not making a strict distinction between “senior” and “other” PAIBs, paragraph 300.5 provides the same standard for all PAIBs, in proportion to their abilities and opportunities that vary with seniority in the organization.</p> <p>A cross reference to paragraph 300.5 has also been added in paragraph 320.8.</p>
20.	<p>The proposed guidance in paragraph 320.8 suggests the PAIB should consider resignation from the employing organization to avoid remaining associated with misleading information, if the information remains misleading after all feasible options to resolve the matter have been exhausted. This could prove an extreme option for non-senior PAIBs who could exhaust all feasible options available to them without resolving the matter.</p>	<p>The phrase “for resolving the matter” has been removed from paragraph 320.8 in acknowledgement that a non-senior PAIB could exhaust all feasible options available to them and still not resolve the matter.</p> <p>A cross reference to paragraph 300.5 has also been added in paragraph 320.8.</p> <p>Paragraph 110.2 states that all PAIBs are required to disassociate themselves from misleading information. Although there may be other feasible actions that may result in disassociation, resignation is an option. In addition, it could be questioned whether resignation is a less extreme option for a “senior” PAIB.</p>