

Review of Part C of the Code

Applicability – Remaining Issues and Task Force Proposals

How the Project Serves the Public Interest

While the focus of Part C¹ of the extant Code, as revised by the March 2016, Close-off: [Changes to Part C of the Code Addressing Preparation and Presentation of Information and Pressure to Breach the Fundamental Principles](#) (Part C Close-off), is on professional accountants in business (PAIBs), the extant Code states that the provisions in Part C might be applicable to professional accountants in public practice (PAPPs) in certain circumstances.

There has been a view that extant Parts B² and C are two distinct parts directed at two different categories of professional accountants. Some stakeholders have interpreted the extant Code as having two sets of provisions aimed at addressing the ethical issues that each category of professional accountants might encounter.

This Project clarifies the applicability of the provisions in extant Part C to individual PAPPs when performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner. The proposals have been drafted using the new format and drafting conventions for the Code.

Background and Introduction

1. At the September 2017 meeting, the Board deliberated the Task Force's further analysis of the issues raised by respondents on the Exposure Draft, [Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice](#) (Applicability ED) and its revisions to the proposed text.

Recap of September 2017 IESBA Discussions

2. The Board was generally supportive of the revisions proposed by the Task Force which incorporated the feedback received from IESBA members during its June 2017 meeting. In particular, the Board agreed that:
 - The proposed requirement paragraphs as drafted meant that provisions in extant Part C would apply to PAPPs when they are performing professional services for clients, and to their client relationships.
 - The scope of the proposed requirement paragraphs should cover individual professional accountants who work as contractors for firms and agreed that contractual relationships should be expressly stated in the Code.

¹ Extant Part C – Professional Accountants in Business (Proposed restructured Part 2 - Professional Accountants in Business)

As part of its Structure of the Code project, the IESBA approved for exposure, *inter alia*, proposed restructured text for Part C of the extant Code as revised by the Part C close-off document. Part 2 of the proposed restructured Code, as revised to incorporate input from respondents to the January 2017 Exposure Draft, [Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2](#) (Structure ED-2) is included in **Agenda Item 2-C**.

² Extant Part B – Professional Accountants in Public Practice (Proposed restructured Part 3 – Professional Accountants in Public Practice)

- Clarifying the applicability of the provisions in extant Part B to PAIBs falls outside the project's scope.
 - The specific example in the ED should be replaced with four shorter examples dealing with different sets of circumstances, and provided suggestions to further refine those examples.
 - The titles of proposed Part 2 and Part 3 of the restructured Code should be retained as presented in the September 2017 drafts.
3. The Board asked that the Task Force consider whether using an example to clarify that some provisions in extant Part C would apply to situations when PAPPs are performing professional services for clients and to their client relationships.

Revisions to September 2017 Proposed Text

4. While the Task Force did not believe that there were substantive issues requiring deliberation after the Board meeting, the Task Force reviewed the proposed text and agreed to further editorial refinements to improve readability and consistency. Those refinements are shown in paragraphs R120.4,³ R300.5⁴ and 300.5 A1 in **Agenda Item 2-C**.
5. The Task Force also revised the example on the preparation or presentation of financial information in the application material to clarify how extant Part C would also apply to the provision of professional services to a PAPP's clients.

Matter for IESBA Consideration

1. Do IESBA members agree with the Task Force's revisions to the proposed text relating to the applicability paragraphs (i.e., R120.4, R300.5 and 300.5 A1 in **Agenda Item 2-C**)?

Due Process Matters

Significant Matters Raised by Respondents

6. It is the Task Force's view that all significant matters raised by the respondents to the ED have been identified and deliberated by the Task Force. The Task Force's analysis of the significant matters identified and its proposals have also been presented in public agenda papers for the Board's discussions. In the Task Force's view, there are no significant matters raised by the respondents that have not been brought to the Board's attention.

Need for Further Consultation

7. The Task Force believes that all significant matters have been deliberated and resolved by the Board. Those matters raised that were considered to be out of scope have been referred to the Planning Committee for its consideration. During its September 2017 meeting, the IESBA CAG did not raise any concerns about the Task Force's analysis of the significant matters or its proposals.

³ Proposed restructured Code, Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, Section 120, *The Conceptual Framework*

⁴ Proposed restructured Code, Part 3 – Professional Accountants in Public Practice, Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

8. On the basis of the above, the Task Force does not believe there is a need for further consultation with stakeholders.

Consideration of the Need for Further Re-Exposure

9. The Task Force notes that the revisions to the proposals in the Exposure Draft, shown in mark-up in **Appendix 1** are responsive to the feedback from respondents to the Exposure Draft. The Task Force believes that the revisions enhance the readability of the proposals and are summarized as follow:
- The scope of the proposed requirement paragraphs has been clarified to include only those professional accountants in public practice who are individuals.
 - The term “contractor” has been added to the proposed text to clarify that such relationship is captured within the scope of the proposed requirement paragraphs, consistent with the IESBA’s observations in the explanatory memorandum.
 - The application material in Part 1 of the restructured Code has been removed to avoid repetition.
 - The example in Part 3 of the restructured Code has been replaced with four examples to provide additional guidance.
10. In light of the above, the Task Force believes that re-exposure is not warranted in this instance as the text post-exposure are in response to feedback from respondents to the Exposure Draft and do not fundamentally or substantively change the proposals in the Exposure Draft.

Matter for Consideration

2. Do IESBA members agree that the changes to the Exposure Draft do not warrant re-exposure?

Appendix 1

Proposed Revisions to Applicability Exposure Draft [Mark-up from ED Version]

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND THE CONCEPTUAL FRAMEWORK

Section 120

The Conceptual Framework

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R120.4 When ~~facing~~dealing with an ~~ethical~~ethical issue, ~~at the~~the professional accountant shall consider the context ~~within~~in which the issue has ~~occurred~~arisen or might arise. Where ~~an individual who is~~an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's ~~employment or ownership~~relationship with the firm, ~~there might be requirements and application material~~whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that ~~are also applicable to these~~these circumstances. ~~If so, the professional accountant in public practice shall comply with the relevant provisions.~~

120.4 A1 ~~For example, where a professional accountant in public practice is pressured by an engagement partner to underreport chargeable hours for a client engagement in order to artificially enhance engagement profitability which might impact the partner's remuneration, the requirements and application material set out in Section 270 would be relevant.~~

PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Section 300

Applying the Conceptual Framework – Professional Accountants in Public Practice

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R300.5 When ~~facing~~dealing with an ~~ethical~~ethical issue, ~~at the~~the professional accountant shall consider the context ~~within~~in which the issue has ~~occurred~~arisen or might arise. Where ~~an individual who is~~an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's ~~employment or ownership~~relationship with the firm, ~~there might be requirements and application material~~whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that ~~are also applicable to these~~these circumstances. ~~If so, the professional accountant in public practice shall comply with the relevant provisions.~~

300.5 A1 Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in

these circumstances.

- Preparing or presenting financial information in relation to the accountant's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- ~~For example, where a professional accountant in public practice is pressured by~~ Facing pressure from an engagement partner to ~~underreport~~ inaccurately report chargeable hours for a client engagement, ~~in order to artificially enhance engagement profitability which might impact the partner's remuneration, t~~ The requirements and application material set out in Section 270 ~~would be relevant~~ apply in these circumstances.