

Review of Part C Phase 2 – Applicability Summary of Significant Comments on ED and Task Force Proposals

How the Project Serves the Public Interest

While the focus of Part C¹ of the Code is on professional accountants in business (PAIBs), the extant Code states that Part C might be applicable to PAPPs in certain circumstances, notably as they relate to intra-firm relationships and relationships with external parties that are not clients.

There has been a view that extant Parts B² and C are two distinct parts directed at two 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 Part C to PAPPs when performing professional activities other than for clients.

Background and Introduction

- In January 2017, the Exposure Draft (ED), [Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice](#) (Applicability ED) was released for comment with a deadline for responses of April 25, 2017. For ease of reference, throughout this document reference is made to extant Parts B and C except for the discussion about the location of the proposals in the proposed restructured Code. Further, the term “Applicability paragraphs” will be used to refer to all four paragraphs of the Code under exposure.

Matters Presented in this Paper

- This paper summarizes the significant issues raised by respondents to the Applicability ED and the Part C Task Force's (TF's) proposals. The paper is organized as follows:
 - Overview of responses and general comments
 - Scope and clarity of paragraphs R120.4 and R300.5
 - Relevance of the example in paragraphs 120.4 A1 and 300.5 A1
 - Location of the Applicability paragraphs
 - Other matters

Overview of Responses and General Comments

- Comment letters were received from 39 respondents, as listed in the Appendix to this paper. The respondents to the Applicability ED comprise the following:

Category of Respondent	Number of Responses
Regulators and Oversight Authorities (Regulators)	1

¹ Proposed restructured Code, Part 2 (Extant Part C) – *Professional Accountants in Business*

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

Summary of Significant Comments on Applicability ED and TF Proposals
IESBA Meeting (June 2017)

National Standard Setters (NSS)	2
Firms	8
IFAC Member Bodies (MBs) ³ and Other Professional Organizations	28
Total	39

General Support for the Applicability Provisions

4. Respondents⁴ are generally supportive of the objective of proposed provisions in clarifying the applicability of Part C to PAPPs in circumstances that do not involve clients. The respondents also support the holistic approach adopted by the IESBA in developing its proposals.
5. Some respondents⁵ questioned the benefits for PAPPs to be familiar with the new material and expressed general concerns about the increasing complexity of the Code and the burden placed on PAPPs in keeping abreast of the relevant laws and regulations as well as other standards and codes.

Small to Medium Practice (SMP) Consideration

6. It was suggested that the Applicability paragraphs did not have the necessary clarity needed to achieve meaningful improvements in behaviors for those PAPPs working in organizations with more limited resources.⁶
7. Some respondents also raised concerns about burdens on SMPs similar to those mentioned in paragraph 5 of this paper.⁷

TF Response to Overview and General Comments

8. The TF is of the view that Part C provides useful guidance to PAPPs on how to respond to an ethical issue or otherwise act ethically when dealing with situations that do not relate to the provision of professional services to their clients and believes that the requirements in Part C will address the concerns of those who believe that its proposals will impose an undue burden on PAPPs.

Matters for IESBA Consideration

1. IESBA members are asked for views to the general comments on the Applicability ED and the TF's response.

³ Certain IFAC Member Bodies also hold the dual role of ethics standard setter in their jurisdictions.

⁴ **Regulators:** UKFRC; **NSS:** APESB, NZAuASB; **Firms:** BDO, CHI, DTT, EYG, GTI, KPMG, PwC, RSM; **MBs:** ATT, ACCA, AE, AICPA, CAANZ, CNCC & CSOEC, CPAA, EXPERTsuisse, FAR, FSR, HKICPA, ICAEW, ICAN, ICAP, ICAS, IDW, IMCP, ISCA, JICPA, KICPA, MIA, MICPA, NBA, SAICA, SMPC, WPK; **Other:** EFAA

⁵ **MBs:** IDW, SMPC, WDK

⁶ **MBs:** ACCA

⁷ **MBs:** CPAC, IDW, SMPC

Clarity and Scope of Paragraphs R120.4 and R300.5

Clarity of the Requirement Paragraphs

9. The proposed paragraphs R120.4 and R300.5 (Requirement paragraphs) under exposure aim to strengthen the guidance material in the extant Code about applicability of Part C to PAPPs and to convey the message that the requirements and application material in Part C might be applicable to circumstances whereby a PAPP is performing professional activities for the firm that is not client related. Whilst the majority of respondents did not raise any issues, some respondents suggested that the Requirement paragraphs did not provide sufficient clarity as to the types of circumstances upon which Part C becomes applicable.⁸
10. It was noted that the first sentence in the Requirement paragraphs may be inaccurate as it implies that the professional accountant has identified a specific issue that needs to be addressed. It was pointed out that the requirements and application material in Part C are not only relevant when dealing with ethical issues, they also provide guidance in how to act ethically under other circumstances.⁹ It was also suggested that the description in the paragraphs did not go far enough to explain the context of the activity that may trigger the applicability of Part C as all professional activities undertaken by professional accountants can be understood to be pursuant to the accountant's employment.¹⁰ It was further noted that the lack of a precise range of relevant situations will cause legal uncertainties for the profession.¹¹
11. Some respondents were of the view that the Requirement paragraphs should state that PAPPs shall also consider the whole Code including Part C and ensure compliance with all the requirements applicable to the circumstances.¹²
12. It was noted that the proposed wordings in the Requirement paragraphs do not cover those situations whereby a professional accountant serves as both a PAPP and PAIB in multiple roles and that it might be beneficial to clarify the applicability of Part C in such circumstances. It was suggested that the IESBA consider expanding the applicability provisions to cover such situations.¹³

TF Proposal

13. The TF has considered all the feedback including suggested alternative wordings from respondents.
14. The TF agrees that the first sentence of the proposed text in the Requirement paragraphs seems to have inadvertently limited the holistic approach to only apply to situations where there is an immediate ethical issue, such as conflicts of interest or pressure. In order to clarify that professional accountants should also apply the holistic approach in other situations, the TF is proposing revised wording that is consistent with the language used in the proposed paragraph 120.6 A1.¹⁴ See revised text in Agenda Item 7-B.

⁸ **Regulators:** UKFRC; **Firms:** PwC; **MBs:** ACCA, AICPA, CPAA, ICAEW, IDW, NBA, SMPC, WPK

⁹ **Firms:** PwC

¹⁰ **MBs:** CPAA

¹¹ **MBs:** WPK

¹² **MBs:** APESB, CPAA, FAR, NBA, UKFRC; **Firms:** PwC

¹³ **MBs:** AICPA

¹⁴ Section 120, *The Conceptual Framework*, paragraph 120.6 A1

15. The TF has also revised the Requirement paragraphs to require PAPPs to focus their attention to Part C when performing professional activities other than for clients of a firm. The revised text is intended to encompass not only situations that are intra-firm related or that concerns the relationship between an employer and an employee, for example, facing pressure by more senior staff or preparation of internal financial information. It is also intended to remind PAPPs who serve in multiple roles, that Part C is applicable when they are performing professional activities as PAIBs. Further, it is noted that the proposed text confines the applicability to performing professional activities which the TF believes to be consistent with the language in paragraph 200.6A1 of the proposed restructured Code.¹⁵
16. Whilst it is not the objective of the Applicability paragraphs to identify the precise range of relevant circumstances, the TF believes the revised application material as mentioned below will help a PAPP to understand when Part C might be applicable.

Matters for IESBA Consideration

2. IESBA members are asked for views about the TF's preliminary revisions to paragraphs R120.4 and R300.5 in **Agenda 7-B**.

Scope of the Requirement Paragraphs

17. Some respondents have commented that the scope of the Requirement paragraphs may have the unintended consequences of being overly expansive due to the Code's definition of PAPP. It was suggested that as the current definition includes "a firm of professional accountants in public practice", without any express limitation to the contrary, an individual who is not a professional accountant working in such a firm will also be required to follow Part C. It was suggested that such consequences may cause undue burden to firms.¹⁶ There was a concern regarding lawyers working in a firm who are already subject to their own professional code of conduct and ethical requirements.¹⁷
18. There was also a question about the need to require PAPPs to be familiar with Part C beyond the three areas of focus identified in the explanatory memorandum (i.e., conflicts of interest, pressure and inducements).¹⁸
19. Some respondents highlighted that whilst the explanatory memorandum included professional accountants who act as contractors of organizations, this relationship is not captured by the phrase "the accountant's employment or ownership relationship with the firm" in the Requirement paragraphs. It is suggested that contractors should be included in the scope of the paragraphs.¹⁹

TF Proposal

20. The TF disagrees with the view that the scope of the Requirement paragraphs may have the unintended consequences of being too broad due to the Code's definition of PAPP. Currently, the Code defines "professional accountants" as "An individual who is a member of an IFAC member

¹⁵ Section 200, *Applying the Conceptual Framework – Professional Accountants in Business*, paragraph 200.6A1.

¹⁶ **MBs:** AE, FSR, ICAEW, ICAS, DTT, PwC

¹⁷ **MBs:** PwC

¹⁸ **MBs:** IDW

¹⁹ **MBs:** ICAS, ICAEW

body” and “professional activity” as “An activity...undertaken by a professional accountant...” This effectively means the Requirement paragraphs are only applicable to individual professional accountants and exclude those individuals who are not professional accountants working in a firm. However, to avoid confusion, the TF proposes to revise the Requirement paragraphs by explicitly stating that Part C is only applicable to individual professional accountants. See paragraphs R120.4 and R300.5 in Agenda Item 7-B.

21. As the revised provisions removed the reference to employment and ownership relationship, the concern that the Requirement paragraphs might have inadvertently excluded a PAPP who is a contractor of a firm from the applicability of Part C is no longer relevant.

Matters for IESBA Consideration

3. Do the IESBA members agree with:
- (a) The TF’s understanding that the extant definitions of professional accountants and professional activities limit the applicability of Part C to only individual professional accountants?
 - (b) The TF’s rationale for adding the phrase “an individual who is...” to the revised proposals in the Requirement paragraphs?

Relevance of the Example in Paragraphs 120.4 A1 and 300.5 A1

22. A substantive number of respondents did not raise any concerns or provide any alternative examples.
23. It was suggested that the example in paragraph 120.4 A1 be removed on the basis that the purpose of section 120 is to set out the conceptual framework which provides the overarching principles and a roadmap to other parts of the Code.²⁰
24. Some respondents suggested minor changes to the example set out in the Applicability ED, which includes:
- Adding the sentence “Examples of areas where such circumstances may occur are for example situations facing conflicts of interest, undue influence from the firm and inducements” at the beginning of the paragraph.²¹
 - Replacing “which might impact the partner’s remuneration” with “or performance”.²²
 - Replacing “under-reporting” with “inaccurately report”.²³
25. Some respondents felt that the example is too brief and should provide more guidance as to how professional accountants should apply the requirements and application material set out in Section 270.²⁴
26. Other respondents questioned the appropriateness and relevance of pressure as an example to demonstrate to PAPPs how Part C may become applicable under circumstances that are not related

²⁰ **MBs:** CNCC & CSOEC

²¹ **MBs:** FAR

²² **MBs:** CPAC

²³ **MBs:** ISCA

²⁴ **MBs:** KPMG, UKFRC

to dealing with client relationships. There was a view that the proposed example contains a threat that would be too difficult for a professional accountant to address.²⁵ The following alternatives were suggested by respondents:

- A new example that is more aligned with what would be considered a professional activity for a PAIB such as preparing engagement budgets or divisional financial information.²⁶
- A new example about a PAPP being pressured by a superior to inappropriately reduce the extent of audit work performed or the level of documentation.²⁷
- A new example on how a PAPP would deal with conflicts of interest created from dealings with a third party that is not a client.²⁸

27. Some respondents suggested there should be more examples to assist with understanding of the requirement and to avoid unintentional non-compliance.²⁹ Other respondents took the view that the example is too specific and that the application material should instead include more guidance, such as a non-exhaustive list of situations, on when Part C is applicable. By way of example, these respondents have made the following suggestions:³⁰

- (a) A PAPP's line management responsibilities in the firm
- (b) Pressure applied on a PAPP by more senior members of the firm to achieve specific outcomes
- (c) Dealing with third parties as part of the role of a PAPP (e.g., banks, taxation authorities and regulators)

TF Proposal

28. Upon due consideration of the respondents' comments, the TF felt that by replacing the specific example of pressure with a non-exhaustive list of the types of situations where Part C might be applicable to a PAPP, it will further assist PAPPs in their understanding of the Requirement paragraphs.
29. The types of situations proposed by the TF are intended to cover a mixture of typical dilemmas and circumstances that may be encountered by PAPPs (See paragraphs 120.4 A1 and 300.5 A1 in **Agenda Item 7-B**). These examples are drawn from the relevant provisions in Part 2 of the restructured Code and provide context as well as the relationship between the professional accountant and the other relevant parties such as another staff member or an external party.
30. The TF believes the new proposed list of situations is sufficient without the need for any specific examples. In forming this view, the TF has also taken into consideration the length of the Applicability paragraphs in the context of Sections 120 and 300 respectively.

²⁵ **MBs:** JICPA, SMPC

²⁶ **Firms:** DTT, KPMG

²⁷ **MBs:** HKICPA

²⁸ **MBs:** JICPA

²⁹ **MPs:** KICPA, SMPC

³⁰ **MPs:** ACCA, CAANZ

Matters for IESBA Consideration

4. IESBA members are asked for views on:
 - (a) The TF's proposal of replacing the example with a non-exhaustive list of high-level situations, including whether the situations listed in the Agenda Item 7-B are suitable.
 - (b) If an example should be retained in the proposed paragraphs 120.4 A1 and 300.5 A1,, whether a different example should be used

Location of the Applicability Paragraphs

31. In general, respondents either expressed their support or did not raise any concerns about the proposed location of the Applicability paragraphs in Sections 120 and 300.
32. Some respondents suggested that the Applicability paragraphs should be included in either Part 1³¹ or Part 3³² only to avoid unnecessary repetition. Other respondents, on the other hand, recommended additional guidance material be included in other parts of the Code including:
 - Parts 4A and 4B of the restructured Code³³
 - Part 2 of the restructured Code³⁴
 - Guide to the Code³⁵
33. It was suggested that the Applicability paragraphs be located elsewhere in Parts 1 and Part 3 in order to have more visibility and prominence, including:
 - The Applicability Paragraphs in Part 3 be placed further up front or alternatively paragraph 300.1 may be amended to give some context to the new changes.³⁶
 - The Applicability Paragraphs in Part 1 be placed towards the end so they lead the PAPP to other sections of the Code as they are relevant to their role. Similarly, a more logical and prominent place for Part 3 is paragraph 300.2 or immediately following that paragraph.³⁷

TF Proposal

34. The TF is comfortable with the proposed locations of the Applicability paragraphs in Parts 1 and 3 of the restructured Code. In reaching this view, TF has taken into account previous discussions by the IESBA on the location of the Applicability paragraphs within the Code.
35. The TF agrees that additional guidance material in other parts of the Code will improve visibility and prominence of the requirement. In this regard, the TF notes that the introduction section of Part 2 of the restructured Code has already expanded the term "professional accountant" under that Part to include also PAPPs when performing professional activities pursuant to the accountant's employment

³¹ **Firms:** DTT

³² **MPs:** AE, ICAN, FSR, FAR

³³ **MPs:** MIA

³⁴ **MPs:** ICAS

³⁵ **MPs:** ICAS; **Firms:** DTT

³⁶ **MPs:** SAICA

³⁷ **MPs:** ACCA

or ownership relationship with their firm.³⁸ The same paragraph also makes reference to the Applicability paragraphs. The TF further notes there is already a “placeholder” in paragraph 4 of the Guide of the Code to remind PAPPs of their responsibility to comply with the provisions under Part 2.

36. The TF will review the additional guidance material already existed in the Code relating to the applicability of Part C to PAPPs and liaise with the Structure TF on any proposed revisions.

Matters for IESBA Consideration

5. Do IESBA members agree with TF’s proposed response to the feedback received on the location of the Applicability paragraphs?

Other Matters

Structure of the Code

Division by Roles

37. Some respondents have suggested that the division of the Code by a professional accountant’s role as PAPP and PAIB be changed to improve the overall clarity and understanding of the applicability of the Code and recommended a number of alternatives for the IESBA’s consideration, including:
- Change the title of Part C to include all professional accountants as it was considered that such a change would not have significant impact on the content under this Part. Alternatively, the term “business” in “professional accountants in business” may be expanded to include firms.³⁹
 - Revise the headings of both Parts B and C to reflect the context in which the ethical issues arise (e.g., employment situations for Part C and client engagement for Part B).⁴⁰
 - Clarify that the entire Code should be applicable to all professional accountants. Any differentiation should focus on the professional role of the professional accountants (i.e., in public appointment relationships or in an employment or ownership relationship).⁴¹
 - Merge Parts A and C with a new section that address specific requirements for professional accountants in public practice and independence for audit and review engagements.⁴²
 - Consolidate Parts B and C with provisions that are applicable to all professional accountants only appear once in a general section and arrange matters specific only to PAPPs and PAIBs into separate sections.⁴³

TF Proposal

38. The TF’s preliminary view is that in addition to the Applicability paragraphs, the existing guidance material in the Guide to Code and Part 2 of the restructured Code may be sufficient in clarifying the

³⁸ Section 200, *Applying the Conceptual Framework – Professional Accounts in Business*, paragraph 200.4

³⁹ **MPs:** APESB, UKFRC

⁴⁰ **MPs:** APESB

⁴¹ **MPs:** FAR

⁴² **MPs:** CPAA

⁴³ **MPs:** CPAC

content of Part C and in drawing the PAPP's attention to the requirements under this Part. As mentioned above, the TF will review the effectiveness of the additional guidance material and discuss the need for any further revisions with the Structure TF in due course. For example, one possible proposal discussed by the TF is to provide more information about the applicability of Part C to PAPPs in the Overview of the Code.

Definitions of PAPP and PAIB

39. Some respondents pointed out that there is a lack of clarity about how and whom Part C could apply to directly or indirectly and that the confusions stems from a historic concerns about the definitions of PAPP and PAIB.⁴⁴ Whilst those respondents did not believe this lack of clarity would impact the intended objective of the proposals, it was suggested that the IESBA revisit these definitions as soon as possible. The respondents observed that the definition of PAPP as it stands may be interpreted to include any professional accountant working in a firm that provides professional services without regard to whether the accountant has client relationships. Conversely, it was noted that the definition of PAIB may capture all professional accountants working in a firm that provides professional services if it is deemed to be part of "service" industry.⁴⁵
40. It was also noted that the definition of PAPP in the proposed restructured Code and the Guide to the Code appears different potentially giving rise to confusion about the applicability of Part C.⁴⁶

TF Proposal

41. Upon due consideration of the feedback and review of the proposal revised requirements in paragraphs R120.4 and R300.5 (see Agenda Item 7-B), the TF is of the view that concerns about the definitions of PAPP and PAIB are outside the scope of the Applicability project. The TF is also of the view that the concerns raised about the definition will not impact on the intended results of the Applicability paragraphs. The TF is recommending that the IESBA include as a matter for future consideration the concerns raised about the definitions PAPP and PAIB.

Other Structural Matters

42. The TF referred the feedback regarding structural matters including those mentioned above to the Structure TF for its consideration and further action.

Other General Comments

43. Some respondents also raised other general comments including the design and functionality of the e-Code,⁴⁷ linkage between ISQC1 and Part 3 of the Code⁴⁸ and need for additional education and other communication activities.⁴⁹

⁴⁴ **MPs:** EXPERTsuisse; **Firms:** PwC

⁴⁵ **MPs:** EXPERTsuisse; **Firms:** PwC

⁴⁶ **MPs:** NZAuASB

⁴⁷ **MBs:** CPAC, ICAS

⁴⁸ **MBs:** CNCC & CSOEC

⁴⁹ **MBs:** ICAP, SAICA, SMPC

Matters for IESBA Consideration

6. Do the IESBA members agree with the TF's view that the concerns about the definitions of PAPP and PAIB should not impact on the desired objective of having the Applicability paragraphs in the restructured Code?

Appendix (Para. 3)

List of Respondents to Applicability ED

Note: Members of the Monitoring Group are shown in bold below.

#	Abbrev.	Respondent (39)	Region
Regulators and Oversight Authorities (1)			
1.	UKFRC	United Kingdom Financial Reporting Council	EU
National Standard Setters (2)			
2.	APESB	Accounting Professional & Ethical Standards Board Limited-Australia	AP
3.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
Firms (8)⁵⁰			
4.	BDO*	BDO International Limited	GLOBAL
5.	CHI	Crowe Horwath International	GLOBAL
6.	DTT*	Deloitte Touche Tohmatsu Limited	GLOBAL
7.	EYG*	Ernst & Young Global	GLOBAL
8.	GTI*	Grant Thornton International Ltd	GLOBAL
9.	KPMG*	KPMG IFRG Limited (Network)	GLOBAL
10.	PwC*	PricewaterhouseCoopers International Limited	GLOBAL
11.	RSM*	RSM International	GLOBAL
IFAC Member Bodies and Other Professional Organizations (28)⁵¹			
12.	AAT	Association of Accounting Technicians	EU
13.	ACCA	Association of Chartered Certified Accountants	GLOBAL
14.	AE	Accountancy Europe	EU
15.	AICPA	American Institute of Certified Public Accountants Auditing Standards Board Professional Ethics Executive Committee	NA
16.	CAANZ	Chartered Accountants Australia and New Zealand	AP
17.	CNCC	Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables	EU
18.	CPAC	Chartered Professional Accountants of Canada (CPA Canada) Public Trust Committee	AP
19.	CPAA	CPA Australia	AP
20.	EFAA	European Federation of Accountants and Auditors for SMEs	EU

⁵⁰ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies.

⁵¹ Certain IFAC Member Bodies hold the dual role of ethics standard setter in their jurisdictions.

Summary of Significant Comments on Applicability ED and TF Proposals

IESBA Meeting (June 2017)

#	Abbrev.	Respondent (39)	Region
21.	EXPERTsuisse	Swiss Expert Association for Audit, Tax, and Fiduciary	
22.	FAR	FAR (Institute for the Accountancy Profession in Sweden)	EU
23.	FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants)	EU
24.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
25.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
26.	ICAN	Institute of Chartered Accountants of Nigeria	MEA
27.	ICAP	Institute of Chartered Accountants of Pakistan	AP
28.	ICAS	Institute of Chartered Accountants of Scotland	EU
29.	IMCP	Instituto Mexicano de Contadores Públicos	NA
30.	IDW	Institut der Wirtschaftspruefer	EU
31.	ISCA	Institute of Singapore Chartered Accountants	AP
32.	JICPA	Japan Institute of Certified Public Accountants	AP
33.	KICPA	Korean Institute of Certified Public Accountants	AP
34.	MIA	Malaysian Institute of Accountants	AP
35.	MICPA	Malaysian Institute of Certified Public Accountants	AP
36.	NBA	Royal Netherlands Institute of Chartered Accountants	EU
37.	SAICA	South African Institute of Chartered Accountants	MEA
38.	SMPC	IFAC Small and Medium Practices Committee	GLOBAL
39.	WPK	Wirtschaftsprüferkammer (German Public Accountants MB)	EU