

# Supplement 2 to Agenda Item 7-A

## Part C Phase 2 – Applicability ED Compilation of Comments – Responses to Questions

**Note 1:** This supplement has been prepared for information only. A comprehensive summary of the significant comments received as of May 31, 2017 on the January 2017 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 the Task Force's related analysis are included in Agenda Item 7-A. All comment letters on the ED can be accessed [here](#).

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### Question

1. Do respondents agree with:
  - (a) The proposed applicability paragraphs; and
  - (b) The proposed location of those paragraphs in Sections 120 and 300 of the proposed restructured Code.

If not, why not?

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

#	Source	Detailed Comment
1.	AAT	AAT supports the proposed applicability paragraphs and location.
2.	ACCA	We have set out already our concerns regarding the positioning of the applicability paragraphs. We believe they are of such importance that they should appear at the end of Part 1 of the restructured Code, so that they lead the PAPP clearly to the other sections of the Code that are relevant to their role. In addition, the applicability paragraphs should be accompanied by a full explanation of what is meant by PAIB.

#	Source	Detailed Comment
		<p>In Part 3 also, we believe the proposed positioning of the applicability paragraphs is inappropriate, and will fail to alert many PAPPs to the relevant material in Part 2 of the restructured Code. The logical and more prominent place for the applicability paragraphs would be within (or immediately following) paragraph 300.2.</p> <p>With regard to the proposed drafting of the applicability paragraphs, we believe it lacks clarity. The important message is that Part 3 concerns a PAPP's relationship with his or her firm's client, and Part 2 concerns ethical issues arising within an organisation. Therefore, a PAPP who is not a sole practitioner must be aware that he or she also works within an organisation, and so much of Part 2 is relevant.</p> <p>The application material – paragraphs 120.4A1 and 300.5A1 – is very specific. We recommend that a list of relationships and roles within a firm (making clear that it not exhaustive) would better illustrate the range of situations that might be relevant to the professional accountant, and so encourage a more open mind to recognising ethical challenges. For example, requirements and application material in Part 2 of the Code might be relevant to a PAPP in respect of:</p> <ul style="list-style-type: none"> <li>• the PAPP's line management responsibilities</li> <li>• pressures placed upon the PAPP by senior management</li> <li>• dealing with third parties arising out of the PAPP's stewardship role (eg with the bank or taxation authorities).</li> </ul>
3.	AE	<p>We agree with holistic approach taken by IESBA as it is aligned with the objectives of the undergoing restructuring exercise of Code.</p> <p>In this sense, IESBA should keep the proposed applicability paragraph in Part 3 (extant Part B) of the Code and refer to it in the guide to the code in order to avoid unnecessary repetition of requirements.</p> <p>IESBA should take every opportunity to reduce the length of the Code and focus as much as possible on the fundamental principles to enhance its implementation and application.</p> <p>Concerning the applicability paragraph, we welcome the idea of extending the provisions applicable to PAIB to PAPP where appropriate, but IESBA should be aware of potential unintended consequences of this approach.</p>

#	Source	Detailed Comment
		The extant definition of PAPP goes beyond professional accountants as this term is also used to refer to firm of professional accountants in public practice. This may have implications in terms of enforcement and entail administrative burden without any benefit.
4.	AICPA	<p>The AICPA Code of Professional Conduct (AICPA Code) recognizes that the requirements applicable to professional accountants in business (PAIBs) might also be relevant to PAPPs. Such circumstances might arise if a PAPP served in multiple roles. For example, if in addition to providing services to clients, a PAPP were to serve on the board of directors of an organization, the professional accountant would be considered to be a PAIB with respect to his or her services provided to the board. Another circumstance would be where the PAPP faces ethical challenges within his or her firm. Under these circumstances, the requirements applicable to PAIBs with respect to their employing organization could be relevant.</p> <p>The AICPA Code therefore contains the following provisions:</p> <p><b>0.100 Overview of the Code of Professional Conduct</b></p> <p><b>.01</b> The AICPA Code of Professional Conduct (the code) begins with this preface, which applies to all <i>members</i>. The term <i>member</i>, when used in part 1 of the code, applies to and means a <i>member in public practice</i>; when used in part 2 of the code, applies to and means a <i>member in business</i>; and when used in part 3 of the code, applies to and means all other <i>members</i>, such as those <i>members</i> who are retired or unemployed.</p> <p><b>.02</b> A <i>member</i> may have multiple roles, such as a <i>member in business</i> and a <i>member in public practice</i>. In such circumstances, the <i>member</i> should consult all applicable parts of the code and apply the most restrictive provisions.</p> <p><b>Members in Public Practice</b></p> <p><b>1.000 Introduction</b></p> <p><b>.01</b> Part 1 of the Code of Professional Conduct (the code) applies to <i>members in public practice</i>. Accordingly, when the term <i>member</i> is used in part 1 of the code, the requirements apply only to <i>members in public practice</i>. When a <i>member in public practice</i> is also a <i>member in business</i> (for example, serves as a member of an entity's board of directors), the <i>member</i> should also consult part 2 of the code, which applies to a <i>member in business</i>.</p> <p><b>1. Do respondents agree with:</b></p>

#	Source	Detailed Comment
		<p><b>(a) The proposed applicability paragraphs; and</b></p> <p>Yes, we agree with the proposed applicability paragraphs. The proposed language addresses situations where a PAPP faces ethical issues within his or her firm, such as a manager facing pressure from a partner, or a partner accepting an inducement from a vendor of the firm. The proposed language, however, would not cover situations where a PAPP serves in multiple roles such as a PAPP who provides services to clients of the firm and also volunteers to serve on the board of directors of an organization. While we hope that most PAPPs realize that Part 2 of the Code applies to their board activities, it might be beneficial to clarify the applicability of Part 2 in such circumstances. We therefore suggest that the Board consider expanding the applicability provisions to address situations where a PAPP serves in multiple roles (i.e., provides professional activities as both a PAPP and PAIB) and require that the PAPP comply with relevant provisions in Part 2.</p> <p><b>(b) The proposed location of those paragraphs in Sections 120 and 300 of the proposed restructured Code.</b></p> <p><b>If not, why not?</b></p> <p>Yes. We have reviewed the proposed restructured Code and believe that the locations being proposed by the Board for these provisions are appropriate.</p> <p>We appreciate this opportunity to comment. We would be pleased to discuss in further detail our comments and any other matters with respect to the IESBA's Exposure Draft.</p>
5.	APESB	<p>APESB agrees with the inclusion of the proposed applicability paragraphs in the proposed restructured Parts 1 and 3 of the Code. The paragraphs will provide a cross reference that will assist users to navigate the Code and find relevant information.</p> <p>However, APESB believes that there is an opportunity to clarify the applicability of the extant Part C (new Part 2) by clearly stating that it applies to <u>all</u> professional accountants.</p> <p>As acknowledged by IESBA, the content of Part C is not entirely unique to Professional Accountants in Business (PAIBs) – it is also relevant to PAPPs. Therefore, it seems logical to amend the applicability to clearly state that Part C is applicable to <u>all</u> professional accountants.</p>

#	Source	Detailed Comment
		<p>Additional changes to reflect this would include changes to the introductory paragraphs and the inclusions of additional examples relating to PAPPs, for instance, in respect of circumstances that might create specific threats or actions that might be safeguards. The additional examples could include:</p> <ul style="list-style-type: none"> <li>- Partners or other senior members highlighting engagements with positive margins and concealing engagements with significantly low profitability when reporting results. (paragraph 220.8 A1); and</li> <li>- Partners and other senior members of engagement team receiving additional compensation for achieving client profitability targets. (paragraph 240.4 A2).</li> </ul> <p>The Code is structured in Parts in which content is categorised, and named, according to the applicability of that content to the relevant professional accountant – either those in business and/ or those in public practice. This naming convention works well when the content can be separated into those discrete roles and labelled accordingly. However, when content is considered applicable to all professional accountants but is named or labelled to refer to just one category of professional accountants, there is a risk that that content will not be found by those who need to apply it.</p> <p>Another matter for IESBA to consider is revising the heading of the extant Part C, and potentially even extant Part B. As noted above, the extant heading for Part C needs to be revised to reflect the applicability to all professional accountants. It could also be an opportunity for the IESBA to consider revising the heading for both the extant Parts B and C to reflect the context in which ethical issues arise rather than to whom the Part applies (for example employment situations for extant Part C or client engagements for extant Part B). This change would clarify further the applicability of the Code to professional accountants in different scenarios.</p> <p>APESB believes that these revisions will further simplify the structure of the Code and facilitate its navigation and ease of interpretation of its requirements and application material.</p>
6.	BDO*	We agree with the proposed applicability of these paragraphs as well as with the proposed location of those paragraphs in Sections 120 and 300 of the proposed restructured Code.
7.	CAANZ	We agree with the proposed amendments to the Code.

#	Source	Detailed Comment
		<p>We also recommend that the application material at proposed paragraphs 120.4 A1 and 300.5 A1 of the Code include additional guidance for when Part 2 of the Code is applicable to a professional accountant in public practice (PAPP). For example when a PAPP,</p> <ul style="list-style-type: none"> <li>• has line management responsibilities in their firm,</li> <li>• has pressure applied on them by more senior members of their firm to achieve specific outcomes, or</li> <li>• is dealing with third parties as part of their role for example banks, taxation authorities or regulators.</li> </ul>
8.	CHI	<p>We agree with the proposed applicability paragraph.</p> <p>We agree with the proposed locations of the applicability paragraphs.</p>
9.	CNCC & CSOEC	<p><b>1. Do respondents agree with:</b></p> <p><b>(a) The proposed applicability paragraphs; and</b></p> <p>We suggest removing the example in the paragraph 120.4 A1 from the conceptual framework set out in Section 120 because this example is only applicable to PAPPs.</p> <p>The purpose of the conceptual framework is to set the overarching principles and provide a road map to the other parts of the Code, not to provide examples which are better placed in the respective parts of the Code to which they apply.</p> <p><b>(b) The proposed location of those paragraphs in Section 120 and 300 of the proposed restructured Code. If not, why not?</b></p> <p>We have no comment on the proposed location.</p>
10.	CPAA	<p>The proposed paragraphs R120.4 and R 300.5 are trying to clarify how the context of the activity may trigger applicability of extant Part C to PAPPs. We do not find the description offered in these paragraphs clear or helpful. These paragraphs state:</p> <p><i>‘Where 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 in Part 2 that are</i></p>

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		<p><i>also applicable to those circumstances. If so, the professional accountant in public practice shall comply with the relevant provisions.'</i></p> <p>All professional activities undertaken by professional accountants can be understood to be pursuant to the accountant's employment. This view is supported by the example in the proposed application paragraphs 120.4 A1 and 300.5 A1, which state: <i>'For example, where a professional accountant in public practice is pressured by an engagement partner to underreport chargeable hours for a client engagement...'</i>. We see the employment and client contexts and relationships as interdependent and not in distinct realms. In the example provided, the client engagement and the employment relationship are in a web of influence that should be considered holistically.</p> <p>Further, we do not think the approach adopted, which states that there might be requirements that are also applicable and if so then PAPPs shall comply with the relevant provisions, is clear. We are of the view that it is necessary for all professional accountants to have an obligation to consider the requirements in Part C and ensure compliance, where relevant.</p> <p>For these reasons, we support the revision of extant Part C so that it applies to all professional accountants, thus assisting the objectives of the Structure of the Code project to improve its understandability and usability. We also urge that the title of Extant Part C: Professional Accountants in Business is removed, as it does not reflect its intended and actual applicability.</p>
11.	CPAC	<p><b>a)      <i>The proposed applicability paragraphs; and</i></b></p> <p>Overall, we generally agreed with the applicability paragraphs given the rationale clearly provided in the Explanatory Memorandum. However, it was noted that the Requirements have been drafted with a narrow context, consistent with the rationale presented, and that this does not consider other areas of Part C that may have possible relevance for a Professional Accountant in Public Practice performing services on behalf of a client such as Section 320 <i>Preparation and Presentation of Information</i>. Generally, it was observed that this is symptomatic of using roles of Professional Accountants to identify distinct Parts of the Code where identical and possibly relevant sections do not appear within each Part.</p> <p>We believe that the example provided in proposed 120.4 A1 and 300.5 A1 would be improved by replacing “which might impact the partner’s remuneration” with “or performance”. This would reflect the view that pressure may be exerted for reasons that are beyond the partner’s remuneration and may more broadly result from concerns about engagement profitably or performance.</p> <p><b>b)      <i>The proposed location of those paragraphs in Sections 120 and 300 of the proposed restructured Code.</i></b></p>

#	Source	Detailed Comment
		<p>Generally, we agreed with the suggested locations for the proposed applicability paragraphs consistent with the rationale provided in the Explanatory Memorandum. However, again, it was observed that these proposed locations were symptomatic of using roles to identify distinct Parts of the Code where identical and possibly relevant sections do not appear within each Part. It was also observed that repeating some sections in different parts of the Code may create an expectation and an inherent reliance by users of the Code that important sections will be repeated. Such reliance could occur irrespective of any assessment made by IESBA as to the length of the material to be repeated which was a consideration made in the instant case, such that users may anticipate the same reinforcement in other current or future Parts and Sections of the Code.</p> <p>We also received input that noting the paragraphs regarding the applicability of Part C to PAPPs may be well placed in the Table of Contents and respective Introductions to ensure that it is “front and center” for users.</p>
12.	DTT*	<p><b><u>Specific Comments</u></b></p> <p><b>1a Do respondents agree with the proposed applicability paragraphs?</b></p> <p>We acknowledge that professional accountants (PAs) may be faced with a variety of ethical dilemmas, both in their client interactions and their activities within their particular organizations, and a member of an IFAC body should be required to act ethically in all professional activities. If a PAPP is only required to follow extant Part B of the Code, there could be an impression that the individual’s ethical responsibilities only relate to his or her client interactions. This clarification of the expectations for PAPPs to follow all parts of the Code makes it clear that a PAPP is to act ethically in all aspects of professional life.</p> <p>We recognize that a firm that has committed to following the Code is required to ensure all of its employees abide by extant Part B of the Code when providing professional services to clients, regardless of whether the individual is a “professional accountant” (i.e., a member of an IFAC member body). It is not clear to us if the proposed changes regarding applicability of Part C are intended to apply to all of the employees of a firm who provide services to clients or only those who are themselves “professional accountants.” We agree members of an IFAC member body should be required to follow all aspects of the Code considering whether the activity involves providing a professional service to a client (Part B) or conducting professional activities within the firm (Part C). However, it is overly expansive to <i>require</i> individuals who are not members of an IFAC member body to follow Part C of the Code when conducting activities <i>within</i> their firm. It could also place an undue burden on firms to have internal policies and monitoring procedures to ensure their professionals who are not professional accountants are aware of, and abide by, Part C.</p>



#	Source	Detailed Comment
		<p>Some of the information in Part C may be useful, so we would not object to encouraging such individuals to consult with Part C of the Code for guidance in instances where an ethical dilemma within the firm is encountered. Accordingly, to clarify this we suggest the following change to the proposed text in R120.4: “When facing an ethical issue, a professional accountant shall consider the context within which the issue has occurred. Where a professional accountant in public practice is performing professional activities pursuant to the accountant’s employment or ownership relationship with the firm, <u>an individual who is a professional accountant shall comply with the relevant</u> <del>there might be</del> requirements and application material in Part 2 that are also applicable to those circumstances. <del>If so, the professional accountant in public practice shall comply with the relevant provisions.</del>”</p> <p>Separately, we suggest the Board include an example in paragraphs 120.4 A1 and 300.5 A1 that is more closely aligned with what would be considered a professional activity for a PAIB. For instance, preparing engagement budgets that will be used by the firm to project the financial performance and resource needs of the firm would be clearer example for a reader.</p> <p><b>1b Do respondents agree with the proposed location of those paragraphs in Sections 120 and 300 of the proposed restructured Code?</b></p> <p>We note that the paragraphs in Sections 120 and 300 are identical and the Board is striving not to repeat information in the Code. It is expected that a PAPP has an understanding of the requirements set forth in Part 1 of the Code so it should not be necessary to repeat the paragraph again in Part 3. Additionally, the conceptual framework as presented in proposed Part 3 is focused on client service matters, not ethical dilemmas related to the employing organization so it does not seem an individual would naturally turn to Part 3 for guidance on such matters. Therefore, it is sufficient and more appropriate to only include the proposed paragraph in Part 1 of the Code. We would be supportive, however, of a comment in the forthcoming Guide to the Code that highlights Part 2 of the Code would also be applicable to a PAPP.</p>
13.	EFAA	We agree.
14.	EXPERTsuisse	N/A
15.	EYG*	<p><b>(a)</b> We agree with the applicability paragraphs as proposed. We support the statement with respect to the need to consider the context in which the issue has occurred and the use of the language “the professional accountant in public practice shall comply with the relevant provisions” in Part 2. We also believe the inclusion of the example is useful in illustrating the pertinence of Part 2 to professional accountants in public practice in some circumstances.</p>

#	Source	Detailed Comment
		<b>(b)</b> We agree with the location of these paragraphs in both Sections 120 and 300 and believe it supports the objective of increasing the prominence of the possible applicability of Part 2 to professional accountants in public practice.
16.	FAR	<p><b>a) The proposed applicability paragraphs? If not, why not?</b></p> <p>FAR has no objection to the contents of the proposed paragraphs, in general, and agrees that Part C of the extant Code can be applied by professional accountants in public practice in ethically problematic circumstances that do not involve clients. The proposed paragraphs serve to clarify that it should be applied and the example given in the application paragraphs 120.4 A1 and 300.5 A1 is to the point.</p> <p>However, FAR finds that the intent of the paragraphs could be made clearer if, in addition to the given example, reference is made to the specific focus areas that are described in the explanatory memorandum, namely conflicts of interests, pressure and inducements. Read without the background given in the explanatory memorandum, the guidance of the paragraphs is limited. Therefore, FAR suggests adding a general reference as a first sentence of the proposed paragraphs:</p> <p><i>"Examples of areas where such circumstances may occur are for example situations facing conflicts of interest, undue pressure from the firm and inducements. For example, where a professional accountant in public practice is pressured by an engagement partner to underreport..."</i></p> <p><b>b) The proposed locations of those paragraphs in Sections 120 and 300 of the proposed restructured Code? If not, why not?</b></p> <p>FAR has no objection to the proposed location of the paragraphs, although limiting the location to Section 300 would in FAR's opinion be sufficient.</p>
17.	FSR	We refer to the comments dated 21. April from Accountancy Europe.
18.	GTI*	<p>Grant Thornton International is supportive of the proposed applicability of the paragraphs in Part C to professional accountants in public practice and the proposed location of the paragraphs in Sections 120 and 300 of the proposed restructured Code.</p> <p>We believe the Board's proposals will enable IFAC in its mission to serve the public interest and allow the Board to achieve its objective of strengthening the IESBA Code (the Code) by continuing to set high quality standards that will enhance the profession.</p>

#	Source	Detailed Comment
19.	HKICPA	<p>We agree with the IESBA that PAPPs should consider and comply with the relevant provisions for professional accountants in business (PAIBs) in the Code when they face similar issues and ethical dilemmas as PAIBs.</p> <p>In relation to an ethical issue potentially encountered by a PAPP, the ED sets out an example whereby a PAPP may be pressured to under-report chargeable hours on a client. We are concerned that this may not be a significant example of a conflict with the requirements of the Code. The IESBA may want to consider including an example where a PAPP faces a substantive ethical dilemma within the firm. For example, a PAPP could be pressured by a superior to inappropriately reduce the extent of audit work performed and/or the level of audit documentation. Such pressure may cause the PAPP to perform the work without sufficient expertise and due care, and therefore breach the fundamental principles. In these circumstances, the PAPP should consider and comply with the provisions in the Code for PAIBs that address pressure to breach fundamental principles.</p>
20.	ICAEW	<ol style="list-style-type: none"> <li>1. We are supportive of the application to Professional Accountants in Public Practice (PAPP) in the circumstances described, as well as the proposed locations for the paragraphs above.</li> <li>2. We have no major criticisms of the proposed wording however we would like to draw IESBAs attention to the explanatory memorandum which suggests that the wording should include 'employees and contractors'. The wording in the applicability paragraph instead refers to 'employment or ownership'. Contractors should be included however it may be preferable to simply remove the words "employment or ownership", thereby applying Part C to the accountant's relationship with the firm in all contexts.</li> <li>3. We also believe that there should be some reference that a PAPP will usually be surrounded by other PAPPs, and less likely to be a lone professional in an employing organisation. It is therefore more likely that mechanisms for resolving ethical dilemmas should be readily available and utilised by the PAPP when they are.</li> <li>4. We note that the definition of PAPP includes firm, so while agreeing with the idea of extending Part C to individual accountants, the new wording may have unintended consequences (e.g. extending the requirements to non-accountants in the firms).</li> </ol>
21.	ICAN	<p><b>A. REQUEST FOR SPECIFIC COMMENTS</b></p> <p><i>Do respondents agree with:</i></p>

#	Source	Detailed Comment
		<p><i>(a) The proposed applicability paragraphs;</i></p> <p><b>Comment:</b></p> <p>Yes, we agree because the applicability framework is to guide all Professional Accountants whether in practice or not that are susceptible to issues of conflict of interest as well as ethical issues.</p> <p><i>Do respondents agree with:</i></p> <p><i>(b) The proposed location of those paragraphs in Sections 120 and 300 of the proposed restructured Code. If not, why not</i></p> <p><b>Comment:</b></p> <p>The proposed location should be in paragraph 300 in part 3. We do not think it is necessary to include it in part 1.</p>
22.	ICAP	<p>a) We agree with IESBA proposed applicability paragraph because in practice, PAPPs encounter situations similar to that of PAIBs.</p> <p>b) Placement of applicability paras is also appropriate as these are placed more prominently, at beginning of Part 1 &amp; Part 3.</p>
23.	ICAS	<p><b>(a) The proposed applicability paragraphs</b></p> <p>We welcome and support that IESBA is seeking to make it clearer how Part C ‘Professional Accountants in Business’ of the extant Code, relates to professional accountants in public practice. We agree that certain provisions contained in Part C might be relevant to professional accountants in public practice in certain situations. It is therefore very important, that such accountants are appropriately signposted to material in Part C of the Code. We note the options contained in paragraph 13 of the exposure draft. Whilst we believe that there is merit in both options (a) and (c) provided that appropriate signposting is included within the Code, we believe that IESBA’s proposal that option ‘(c) <i>Clarify that the requirements and application material in the Code should be applied in a holistic manner</i>’ is the most appropriate. Our rationale for supporting this approach is as per the content of paragraphs 15(a) and (c) of the Exposure Draft:</p> <p><i>‘(a) Is designed to ensure PAPPs’ consideration of whether the provisions in Part C are applicable in the particular circumstances’; and</i></p> <p><i>‘(c) Would not create an unwieldy Code with duplicate requirements and application material relating to the same topic, thus detracting from one of the objectives of the Structure of the Code project.’</i></p>

#	Source	Detailed Comment				
		<p>We are also supportive of IESBA’s stance not to specifically identify the types of ethical issues in respect of which a professional accountant in public practice might consider referring to in Part C of the extant Code.</p> <p><u>Definition of Professional Accountant in Public Practice</u></p> <p>Per the definition included in the draft restructured Code (January 2017), this includes both the individual but also, the firm as shown below:</p> <table><tr><td><i>Professional accountant in public practice</i></td><td><i>A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.</i></td></tr><tr><td></td><td><i>This term is also used to refer to a firm of professional accountants in public practice.</i></td></tr></table> <p>It is our view that it should be clarified that it is only intended that the potential need to apply Part 2 of the Restructured Code is to actual persons who are professional accountants in public practice, as opposed to also including their respective firms.</p> <p><u>Inclusion of Example</u></p> <p>On balance, we agree that there appears merit in including an example of a situation where a public accountant in public practice might face an ethical dilemma that is not client-related.</p> <p><u>Location of Text</u></p> <p>We are supportive of including “<i>Applicability Paragraphs</i>” in both Part 1 and Part 3 of the restructured Code. There might even be merit in highlighting at Part 2 that its content may be applicable on occasion to professional accountants in public practice. Such matters would also need to be highlighted via the contents of the Code – possibly via a footnote reference but preferably more prominently.</p> <p>We are supportive of including a statement in the Guide to the Code to the effect that: “<i>Professional accountants in public practice might also find Part C relevant to their particular circumstances</i>”.</p>	<i>Professional accountant in public practice</i>	<i>A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.</i>		<i>This term is also used to refer to a firm of professional accountants in public practice.</i>
<i>Professional accountant in public practice</i>	<i>A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.</i>					
	<i>This term is also used to refer to a firm of professional accountants in public practice.</i>					

#	Source	Detailed Comment
		<p>We are also supportive of including a reference to the applicability paragraphs in the Guide to the Code. The diagram on page 5 of the Guide headed “Overview of the Code” should also highlight the potential need for professional accountants in practice to apply Section 200 of the restructured Code.</p> <p>We are supportive of the proposed location of the text in paragraph R120.4. Our only concern is whether, if the Code was electronic, it would be possible to view the content of paragraph R120.3A1 without also viewing that of paragraph R120.4. If so, then the content of R120.3A1 would preferably need to refer the user to paragraph R120.4 as illustrated below by the proposed additional underlined text.</p> <p><i>“Requirements and Application Material</i></p> <p><i>R120.3 The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.</i></p> <p><i>120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:</i></p> <p><i>(a) Part 2 – Professional Accountants in Business;</i></p> <p><i>(b) Part 3 – Professional Accountants in Public Practice; and</i></p> <p><i>(c) International Independence Standards, as follows: (i) Part 4A – Independence for Audits and Reviews; and</i></p> <p><i>(ii) Part 4B – Independence for Other Assurance Engagements.</i></p> <p><u><i>As per paragraph R120.4, the contents of Part 2 might be applicable to professional accountants in public practice.</i></u></p> <p><i>R120.4 When facing an ethical issue, a professional accountant shall consider the context within which the issue has occurred. Where 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 in Part 2 that are also applicable to those circumstances. If so, the professional accountant in public practice shall comply with the relevant provisions.”</i></p> <p><b>Professional accountants acting in a sub-contracted role</b></p> <p>We noted the following in our response to the IESBA Exposure Draft: Responding to Non-Compliance with Laws and Regulations (dated 3 September 2015):</p>

#	Source	Detailed Comment
		<p><b><i>“Matters not Addressed</i></b></p> <p>We are not convinced that the proposed changes cover situations where the professional accountant may be acting in a sub-contracted role, that is, where the employing organisation makes use of sub-contracted labour. Additionally, in terms of section 360, are non-executive directors (NEDs) within the scope of this guidance? NEDs, in the UK, are not normally classified as “employees”. Is the intention to define “employing organisation” within the revised Code? Paragraph 36 of the Explanatory Memorandum states: “The revised proposals are intended to cover only situations where the PA has a direct (contractual) relationship with a client (such as through an audit or other assurance engagement or the provision of non-assurance services), or for PAIBs, where there is an employment relationship.” We are not convinced that NEDs are captured, nor are professional accountants engaged on a sub-contract basis.”</p> <p>In terms of this current exposure draft, section R120.4 (and R 300.5) states the following: “<i>Where a professional accountant in public practice is performing professional activities pursuant to the accountant’s <u>employment or ownership</u> relationship with the firm, there might be requirements and application material in Part 2 that are also applicable to those circumstances.</i>” Similar to the comment noted above in our response to the NOCLAR ED, we note that “employment or ownership” does not cover sub-contractors.</p> <p>We note IESBA mentions “professional accountants who act as ....contractors of organizations” in its Explanatory Memorandum (para 7) to the ED, however this category of professional accountant is not then reflected in the proposed wording for the Code.</p> <p><b>Scope of Definition of Professional Accountant in Business</b></p> <p>This is currently defined as follows: “A professional accountant working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner manager or volunteer.”</p> <p>On occasion, we have been asked whether this definition is all encompassing i.e. covers any individual who, although a professional accountant, is not working in that capacity. Whilst we believe that the definition is intended to be all encompassing, we believe that this could be made clearer e.g. would a professional accountant (someone who is a member of an IFAC Member body) working as a news presenter be captured? In-effect, does this definition apply to anyone who is a</p>

#	Source	Detailed Comment
		professional accountant (as per the definition, regardless of their actual role) but who is not a professional accountant in public practice?
24.	IDW	<p>(a) We refer to our accompanying letter, in which we question the need to implicitly require PPAPs to be familiar with Part C beyond the three areas identified by IESBA (conflicts of interest; pressure; inducements).</p> <p>In addition, the example proposed for 120.4A1 and 300.5A1 illustrates the need for IESBA to be clear as to how significance should be addressed, i.e. to communicate IESBA's intent in this context. The relationship between an employee and an employer will generally mean that a professional accountant who is an employee does not have a choice of actions other than to face dismissal when directly instructed to undertake an action that may appear questionable. Indeed, there may be instances where if all the relevant facts and circumstances underlying that instruction had been known to the employee, the instruction would have proven less or even not questionable. The reference to Section 270 indicates the dilemma as to available safeguards. In practice the notion of restructuring or segregation of duties may not be available in all accounting firms or practices. Thus the circumstances and relative significance of such an action would be highly relevant. For this reason we strongly believe that the proposed requirement in paragraphs R120.4 and R300.5 need to clarify that significance and possible frequency of occurrence play a role in determining whether the threat to an individual PPAP's compliance with the fundamental principles exceeds an acceptable level.</p> <p>(b) If the applicability is changed as proposed we have no issue with the placement as such.</p>
25.	IMCP	The PEC agrees with (a) the proposed applicability paragraphs; and (b) the proposed location of those paragraphs in Section 120 and 300 of the proposed restructured Code.
26.	ISCA	<p>(a) We note that the example given in the proposed paragraph 120.4 A1 pertains to that of a professional accountant in public practice being pressured to underreport chargeable hours for a client engagement in order to enhance engagement profitability. This is applicable where engagement profitability affects the remuneration of engagement partners.</p> <p>Similarly, over-reporting of chargeable hours may also be happen in cases where clients are billed based on time cost incurred by the engagement team and the engagement partner's remuneration is affected by the amount of revenue he brings in.</p>



#	Source	Detailed Comment
		<p>Hence, to enable the example in the proposed paragraph 120.4 A1 to cater to different circumstances, we propose the wordings to be tweaked as follows:</p> <p>“For example, where a professional accountant in public practice is pressured by an engagement partner to <del>underreport</del> <u>inaccurately report</u> chargeable hours for a client engagement in order to <del>artificially enhance engagement profitability which might impact the partner’s remuneration</del>, the requirements and application material set out in Section 270 would be relevant.”</p> <p>(b) We agree with the proposed locations of the applicability paragraphs in Sections 120 and 300 of the proposed restructured Code.</p>
27.	JICPA	<p>(a) We do not agree with the examples as stipulated in paragraphs 120.4 A1 and 300.5 A1.</p> <p>Both paragraphs of 120.4 A1 and 300.5 A1 provide that “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”.</p> <p>However, we are of the view that the example of non-compliance with the fundamental principles where an engagement partner who is also a professional accountant exerts pressure to underreport chargeable hours is not appropriate as an example to be set out in the Code of Ethics since such a threat is very difficult to address.</p> <p>Accordingly, we are of the view that an example to be provided in paragraphs 120.4 A1 and 300.5 A1 should be more appropriate by providing an example where a professional accountant is capable of addressing the threat even though such professional accountant may be placed in a situation of possibly compromising compliance with the fundamental principles. For example, among three specific areas (conflicts of interest, pressure, and inducements) which the IESBA focused on, we believe that the following example concerned with conflicts of interest is appropriate since it can demonstrate how to address the threat.</p> <p>“For example, where the firm considers relocating its office and one of the proposed properties for the relocation is owned by a close family member of a senior partner or an executive partner of the firm, the requirements and application material set out in Section 210 would be relevant. In this circumstance, after evaluating the level of the threat created by the conflict of interest, the threat may be eliminated or safeguards may be applied. For example, in order to ensure that the relevant transaction is conducted at arm’s length, actions to be taken may include establishing policies and</p>

#	Source	Detailed Comment
		<p>procedures prescribing selection criteria, obtaining quotes from multiple parties, excluding from consideration any property owned by a close family member of a senior partner or an executive partner of the firm, or removing the involvement of such partner in determining a new office property”.</p> <p>(b) We believe the proposed location of those paragraphs is appropriate.</p>
28.	KICPA	<p>(a) We support the proposed applicability paragraphs in that the location of the paragraphs stating that there could be a circumstance where requirements and application material in Part 2 (PAIBs) might be applicable to PAPPs, and in such case they shall comply with relevant requirements, in the important parts of the Code would contribute to PAPPs’ compliance with the Code.</p> <p>In addition, the holistic manner of requiring to consider all the requirements and application material, regardless of where both of them are situated in the Code, taking into account the context of ethical issues arisen, would also be believed to contribute to PAPP’s compliance with the Code, thereby leading us to agree with the general direction of the revisions. However, the extant Code describes that PAPPs may also find Part C relevant to their particular circumstances. In comparison, the proposed revisions describe that there might be a circumstance where Part C is applicable to PAPPs and in such case they shall comply with relevant requirements. We believe that the Board should consider describing relevant cases to prevent unintentional non-compliance. When describing specific examples, the Board could consider adding a provision that such relevant examples are not designed to list all of the requirements of Part C to be applicable to PAPPs, not to undermine the holistic manner.</p> <p>(b) The proposed location of applicability paragraphs in Sections 120 and 300 of the proposed restructured Code might be based on the consideration that the sections are expected to mostly used by professional accountants in Parts 1 and 2, thereby making it easy for them to find applicability paragraphs.</p> <p>Considering that applicability paragraphs are one of the important paragraphs, it would be appropriate to situate them in a location where professional accountant can easily find.</p>
29.	KPMG*	<p>We support the principles-based approach and agree it is helpful for the application material to include an example of a non-client related ethical issue that may be relevant to the requirement in R120.4/R300.5. However, we are concerned that the proposed example is not very helpful because it is quite vague and does not clearly explain which aspects of the requirements and application material in Section 270 would be relevant and why.</p>

#	Source	Detailed Comment
		<p>We suggest the following example of how a PAPP considers an ethical dilemma would be more reflective of the Board's objective in introducing the requirement in R120.4/R300.5:</p> <p>"A PAPP within an Advisory division of a public accounting firm is preparing financial information in relation to the profitability of the division which affects the financial remuneration both of the partner(s) in charge of the division and, potentially, the PAPP himself or herself because of the existence of performance related remuneration.</p> <p>In preparing the financial information the PAPP should apply the requirements of Section 220 on Preparation and Presentation of Financial Information, having regard to 220.9 on exercising professional judgment.</p> <p>There are two potential threats that the PAPP should identify:</p> <ul style="list-style-type: none"> <li>— A potential conflict of interest (210.5) where those in charge of the division could exercise undue pressure on the preparation of the financial information; and</li> <li>— The self-interest threat (240.4 A2) in relation to performance related remuneration.</li> </ul> <p>In exceptional cases there could be a threat of inducement by those in charge of the division, for example, by offering preferential treatment to the PAPP (section 250).</p> <p>Once the PAPP has identified the threats he or she may seek guidance in relation to the conflict of interest threat from relevant personnel within the firm outside the division following 210.9 A1."</p>
30.	MIA	<p><u>MIA's response:</u></p> <p>We agree with the proposed applicability paragraphs and their locations in Sections 120 and 300.</p> <p>The IESBA may consider to insert these paragraphs under:</p> <ul style="list-style-type: none"> <li>• Part 4A <i>Independence for Audits and Reviews</i> – Section 400 as R400.13 and 400.13A; and</li> <li>• Part 4B: <i>Independence for Other Assurance Engagements</i> – Section 900 as R900.17 and 900.17A</li> </ul> <p>to emphasise that the provisions in Part 2 may also be relevant when carrying out audits, reviews and other assurance engagements.</p>
31.	MICPA	Yes, MICPA agrees.

#	Source	Detailed Comment
32.	NBA	<p>We agree that in general the part of the code that is directed at accountants in business is applicable to all professional accountants when performing a role within their organization. We feel that the solution as provided is helpful. At the same time we suggest a more fundamental change.</p> <p>At least in the Netherlands we experience that more and more accountants are changing roles working in part time assignments. Therefore an accountant could be working as an accountant in business in the morning and as an accountant in public practice in the afternoon.</p> <p>We therefore suggest that it would be better to clarify that the extant part is always applicable to professional accountants when a threat is related to the own organization and that extant part B is applicable to threats that relate to the services provided to a client.</p>
33.	NZAuASB	<p>In reviewing the proposals to clarify the applicability of Part C of the extant Code, the NZAuASB considered the definitions of Professional Accountant in Business and Professional Accountant in Public Practice. We have the following observations:</p> <p><u>Definition of Professional Accountant in Business</u></p> <p>The NZAuASB fully supports the revised definition of professional accountant in business, in particular, clarifying that professional accountants in business include, amongst others, volunteers.</p> <p><u>Definition of Professional Accountant in Public Practice</u></p> <p>The NZAuASB notes that the wording of the definition of professional accountant in public practice included in the <i>Compilation of Proposed Restructured Code</i> (as of January 2017) is slightly different to the wording used in the Guide to the Code of the same document. This difference in wording creates a significant difference in meaning, and potentially gives rise to some of the confusion around the applicability of Part C.</p> <p>Professional accountant in public practice is defined as, “a professional accountant, irrespective of functional classification (for example, audit, tax or consulting) <i>in a firm that provides professional services</i> [emphasis added].<sup>1</sup>” Whereas the Guide to the</p>

<sup>1</sup> *Compilation of Proposed Restructured Code* (as of January 2017) page 188.

#	Source	Detailed Comment
		<p>Code<sup>2</sup> states, “Part 3... which sets out additional material that applies to professional accountants in public practice <i>when providing professional services</i> [emphasis added].”</p> <p>The wording “<i>when providing professional services</i>” indicates that it is in the action of providing the services that Part C would apply, whereas “<i>in a firm that provides professional services</i>” indicates that it is the role of the firm that determines whether Part C would apply. The NZAuASB recommends that the IESBA aligns the wording in the definition and the Guide to the Code to ensure that the correct meaning is taken. Further, the NZAuASB urges the IESBA to undertake a full review of the entire restructured Code, taking care to ensure consistency in wording, prior to issuing the finalised restructured Code. Even apparently minor differences in wording may have a significant effect on meaning and create confusion.</p>
34.	PwC	<p>In response to the specific questions that the Board raised in the ED:</p> <p>We support the view of the Board that there are aspects of extant Part C (to be Part 2), which addresses Public Accountants in Business (PAIB), that may be applicable to all professional accountants working in a firm that provides professional services. Such applicability will depend on the facts and circumstances.</p> <p>We also agree that it is not necessary or appropriate to be specific about which elements of Part C may apply as this will depend on the circumstances, and we could envisage that sub-sections, such as Preparation and Presentation of Financial Information, could equally be relevant.</p> <p>We agree with the placement of the applicability paragraphs in Sections 120 and 300.</p> <p>In terms of the content of proposed R120.4 and R300.5, we have an observation on the introductory sentence which in each case is:</p> <p><i>“When facing an ethical issue, a professional accountant shall consider the context within which the issue has occurred”</i></p> <p>We wonder whether the emphasis of this sentence is quite correct as it implies that the professional accountant has identified a specific “issue” that needs to be addressed. While we can see that this could be the case, for example where the accountant identifies a conflict of interest, we observe that much of this Part of the Code sets out requirements, supported by application material, to help the accountant comply with the fundamental principles. For example (R240.4)</p>

<sup>2</sup> Compilation of Proposed Restructured Code (as of January 2017) page 3.

#	Source	Detailed Comment
		<p><i>“A professional accountant shall not manipulate information or use confidential information for personal gain or for the financial gain of others”</i></p> <p>While this could be an issue if the accountant did not comply, it is more an overriding requirement (in effect to avoid an issue arising).</p> <p>Accordingly we suggest that the lead in sentence could either be deleted (as the paragraph works without it) or be reframed along the following lines:</p> <p><i>“In complying with the requirements of the Code, a professional accountant shall consider and apply the Code in the context to which it relates”.</i></p>
35.	RSM*	<p>We support the IESBA’s objective of setting high-quality ethics standards for professional accountants around the world. We welcome to the proposal to clarify the applicability of extant Part C to Professional Accountant in Public Practices. We have no further comment on the proposal.</p>
36.	SAICA	<p>1. <i>Do respondents agree with:</i></p> <p>a) <i>The proposed applicability paragraphs; and (If not, why not?)</i></p> <p><b>Response:</b></p> <p>SAICA agrees with the proposal to include an applicability paragraph in the conceptual framework as it sets the scene for public accountants to apply and interpret the Code.</p> <p>b) <i>The proposed location of those paragraphs in Sections 120 and 300 of the proposed restructured Code. (If not, why not?)</i></p> <p><b>Response:</b></p> <p>SAICA agrees with the thinking in terms of having the paragraph in both parts of the code, this serves to highlight the relevance of the relevant sections to the PAPP found in the sections dealing with PAIB. It is important that if the ethical issue occurs and the PAPP is not acting in capacity as an auditor when an ethical issue arises that the PA be informed that guidance exists in another part of the Code. While this flag does enhances the possibility of discovering the applicability of that section to those auditors who have traditionally ignored Part C (PAIB). In our view other awareness initiatives should be communicated by member bodies to ensure the Code is correctly implemented.</p>

#	Source	Detailed Comment
		<p>We agree with the current location of the applicability paragraph, but it may be better placed up front (better signposting). Alternatively the Board should consider a further amendment to the Introduction section in 300.1 to better contextualize the change up front. Suggested change is highlighted in red: “This Part of the Code describes requirements and application material for professional accountants in public practice when applying the conceptual framework set out in Section 120. The conceptual framework may be applied by the PAPP in the course of being an Assurance or Non-Assurance provider of the firm, or when acting in the capacity as an employee of the firm where additional guidance is found in Part C of the Code.”</p>
37.	SMPC	<p>We agree with the proposed applicability paragraphs and their proposed locations as recommended in the ED.</p> <p>However, the proposed examples in Para 120.4 A1 and Para 300.5 A1 illustrates the need to communicate clearly IESBA’s intent in this context. The relationship between an employee and employer will generally mean that a professional accountant who is an employee does not have a choice of actions, other than to face dismissal when directly instructed to undertake an action that may appear questionable. Indeed, there may be instances where if all the relevant facts and circumstances underlying that instruction had been known to the employee, the instruction would have proven less or even not questionable. The references to Section 270 indicates the dilemma as to available safeguards. In practice, the notion of restructuring or segregation of duties may not be available in all accounting firms or practices. Thus the circumstances and relative significance of such an action would be highly relevant. For this reason, we strongly believe that the proposed requirement paragraphs R120.4 and R300.5 need to clarify that significance and possible frequency of occurrence may play a role in determining whether the threat to an individual PAPP’s compliance with the fundamental principles had exceeded an acceptable level. The use of more examples in this respect may also be helpful.</p> <p>It is also important to distinguish clearly the applicability of related provisions to the engagement partners and the other members of the engagement team since the PAPPs cover both and the threats encountered are different to each other.</p>
38.	UKFRC	<p>All professional accountants are required to comply with the conceptual framework and the fundamental principles. Accordingly, it is appropriate that they should be required to have regard to all ethical provisions in the Code that are applicable to their circumstances. We agree that it is appropriate to have requirements to this effect in both the Conceptual Framework and Part 3, Professional Accountants in Public Practice, of the proposed restructured Code. However, we suggest the requirement could be improved by rewording it as follows:</p>

#	Source	Detailed Comment
		<p>When facing an ethical issue, a professional accountant shall consider the context within which the issue has occurred <u>and shall comply with all requirements within the Code that are applicable to the circumstances.</u> Where a professional accountant in public practice is performing professional activities pursuant to the accountant's employment or ownership relationship with the firm, <del>there might be</del> <u>and there are</u> requirements and application material in Part 2 that are <del>also</del> applicable to those circumstances. <del>If so,</del> the professional accountant in public practice shall comply with the relevant provisions.</p> <p>The illustrative example would be more helpful if it was more explicit as to the applicable requirements and application material set in out in Section 270 and gave guidance on how the professional accountant should apply them. The primary applicable requirement for that example would be:</p> <p style="padding-left: 40px;">R270.4 A professional accountant shall not:</p> <p style="padding-left: 80px;">(a) Allow pressure from others to result in a breach of compliance with the fundamental principles.</p> <p>Succumbing to pressure to under-report chargeable hours for a client engagement in order to artificially enhance engagement profitability which might impact the partner's remuneration, would be a breach of the fundamental principles of integrity and professional behaviour. However, it could also give rise to threats to compliance with the fundamental principles of objectivity and professional competence and due care if the pressure resulted in the professional accountant looking to cut corners to reduce the number of hours actually worked.</p> <p>Given this new requirement, we believe that the title of Part C (Part 2 in the restructured Code) should be amended to be clear that it is not restricted just to professional accountants in business, and introductory text added to explain that in some circumstances the requirements and application material may be relevant to professional accountants in public practice. Alternatively, it could be explained that a "business" may include a public practice firm.</p>
39.	WPK	<p>Regardless of the terminology used in the applicability paragraph, we fear that a mere reference to Part C might impair the clarity and manageability of the Code. On the other hand, comprehensive repetitions of "Part C"-requirements in Part B should be avoided.</p> <p>Although the ED stipulates examples for applying Part C provisions to PAIPP, the precise range of situations for which PAIPP shall apply Part C remains unclear. This lack of precision would inevitably bring about legal uncertainties for the profession.</p>



Part C Phase 2 – Applicability ED, Compilation of Responses to Question  
*IESBA Meeting (June 2017)*