

 <p>Public Interest Oversight Board</p>	<p>64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING</p>	<p>Agenda Item 1.2.3</p>
---	---	-------------------------------------

Basis for Conclusions
Prepared by the Staff of the IESBA®
September 2020

*International Ethics Standards Board
for Accountants®*

Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants



International
Ethics Standards
Board for Accountants®

	<p style="text-align: center;">64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING</p>	<p style="text-align: center;">Agenda Item 1.2.3</p>
---	--	---



About the IESBA

The [International Ethics Standards Board for Accountants®](#) (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the [IESBA Consultative Advisory Group](#) (CAG) and under the oversight of the [Public Interest Oversight Board](#) (PIOB).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

	<p style="text-align: center;">64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING</p>	<p style="text-align: center;">Agenda Item 1.2.3</p>
---	--	---


Copyright © September 2020 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see [page 15](#).

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------

**BASIS FOR CONCLUSIONS:
REVISIONS TO THE CODE TO PROMOTE THE ROLE AND MINDSET
EXPECTED OF PROFESSIONAL ACCOUNTANTS**

CONTENTS

	Page
I. Introduction	5
II. Background.....	5
III. Acting in the Public Interest	8
IV. Strength of Character to Act Appropriately	11
V. Having an Inquiring Mind	11
VI. Bias and Organizational Culture	13
VII. Other Significant Matters	15
VIII. Effective Date.....	16

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------

BASIS FOR CONCLUSIONS: ROLE AND MINDSET

I. Introduction

1. At its June 2020 virtual meeting, the IESBA approved the revisions to the Code to promote the Role and Mindset expected of professional accountants (PAs) (Role and Mindset provisions) with the affirmative votes of 16 out of 16 IESBA members present.
2. This Basis for Conclusions is prepared by IESBA staff and explains how the IESBA has addressed the significant matters raised on exposure. It relates to, but does not form part of, the Role and Mindset provisions approved by the IESBA.


II. Background

Development of the Project Proposal

3. Over the past few years there have been calls for the Standard-setting Boards¹ to enhance the way in which existing material in their standards addresses 'professional skepticism'. In response to these calls and recommendations from a tripartite Professional Skepticism Working Group (PSWG) established by the IESBA, the IAASB and the former IAESB, the IESBA undertook a [short-term professional skepticism project](#) in 2017.
4. As part of this short-term project, the IESBA developed application material to (a) supplement the references to professional skepticism in the Code by explaining how compliance with the fundamental principles supports the exercise of professional skepticism in audits, reviews and other assurance engagements, and (b) illustrate this linkage in the context of an audit of financial statements. In addition, the IESBA developed new application material relating to the exercise of professional judgment (see further discussion in Section III). This new material is contained in the [revised and restructured Code](#), which was issued by the IESBA in April 2018 and became effective in June 2019.
5. Having completed the short-term project, the IESBA moved on to tackle the broader topic of whether the Code should require all PAs to exercise 'professional skepticism' when undertaking professional activities, whether in public practice or in business and, if so, how that objective should be achieved. This topic was included as a pre-commitment in the IESBA's [Proposed 2019-2023 Strategy and Work Plan](#)² consultation paper issued in April 2018.
6. In May 2018, the IESBA issued a Consultation Paper, [Professional Skepticism – Meeting Public Expectations](#) (the Consultation Paper or CP). Amongst other matters, the CP sought views on:
 - The mindset and behavioral characteristics expected of all PAs;
 - Whether the term 'professional skepticism', or other terms, should be used to describe such mindset and characteristics; and
 - Whether the Code should be further developed, and/or other actions outside the Code taken, to promote such mindset and behaviors.

¹ The International Auditing and Assurance Standards Board (IAASB), the IESBA, and the former International Accounting Education Standards Board (IAESB)

² The [IESBA Strategy and Work Plan 2019-2023](#) was released in April 2019

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------

BASIS FOR CONCLUSIONS: ROLE AND MINDSET

7. The issues raised in the CP were also discussed at four [global roundtables](#) between June and July 2018 which were attended by approximately 150 senior-level delegates. The IESBA received comments in response to the CP from over 60 respondents. The responses to the CP and the views expressed at the global roundtables gave strong support for the following propositions:
- The mindset and behavioral characteristics set out in the CP³ should be expected of all PAs when performing professional activities.
 - Although the term ‘professional skepticism’ had been loosely used by some stakeholders to encapsulate that mindset and those behavioral characteristics, that term should be reserved for use only in an audit and assurance context and as defined in the auditing and assurance standards issued by the IAASB.
 - Section 100⁴ of the Code should be developed to better explain the mindset and behaviors expected of PAs, and to link that material with the fundamental principles and the conceptual framework.
 - The Code should be developed to better recognize the role of bias, pressure and other impediments in influencing behavior and how to mitigate the threats they create.
8. Having considered the responses to the CP and views from the global roundtables, the IESBA approved a project proposal, [“Promoting the Role and Mindset Expected of Professional Accountants”](#) (Role and Mindset Project), at its September 2018 meeting.
9. Amongst other matters, the scope of the project included:
- Consideration of revisions to Part 1 of the Code to:
 - Describe the role, mindset and behavioral characteristics expected of all PAs when performing their professional activities (Section 100).
 - Explain the linkage between the role, mindset and behavioral characteristics expected of PAs on the one hand, and, on the other hand, the fundamental principles (Section 110⁵) and the conceptual framework (Section 120⁶).
 - Address threats to compliance with the fundamental principles arising from bias, pressure and other impediments, together with appropriate supporting material.
 - A review of other Parts of the Code to identify opportunities to emphasize and reinforce the mindset and behavioral characteristics expected of PAs in business and in public practice.
 - Development of material to explain the linkage between the mindset and behavioral characteristics set out in the Code and expected of all PAs and the concept of professional skepticism as defined in the IAASB’s standards.


Exposure Draft

³ See paragraph 10 of the CP

⁴ Part 1, *Complying with the Code, Fundamental Principles and Conceptual Framework*, Section 100, *Complying with the Code*

⁵ Section 110, *The Fundamental Principles*

⁶ Section 120, *The Conceptual Framework*

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------

BASIS FOR CONCLUSIONS: ROLE AND MINDSET

10. In July 2019, the IESBA released the Exposure Draft (ED), [Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants](#).
11. As stated in the ED's Explanatory Memorandum, the proposed revisions, amongst other matters:
 - Highlighted the wide-ranging role of the accountancy profession in society and the relationship between compliance with the Code and a PA's responsibility to act in the public interest.
 - Included enhancements to the fundamental principles of objectivity and professional behavior.
 - Strengthened the fundamental principle of integrity to include the determination to act appropriately in difficult situations.
 - Included some enhancements that reflect the impact of technology.
 - Required all PAs to have an inquiring mind when applying the conceptual framework.
 - Highlighted the importance of being aware of bias and having the right organizational culture.
12. A total of 46 [comment letters](#) were received from various respondents, including a Monitoring Group member, other regulators and audit oversight bodies, national standard setters, IFAC member bodies, other professional bodies and firms. In summary:
 - Respondents were generally supportive of the objectives of the project and the proposals in the ED.
 - Key areas that drew the most significant comments and calls for further consideration by the IESBA related to the use of the terms "public interest" and "ethical values" as well as a PA's responsibility to act in the public interest in the proposed material in Section 100 and Subsection 115.⁷
 - There was general support for the new requirement and application material on "having an inquiring mind" when conducting professional activities. Most comments related to refinements to the proposed text but there were also some that suggested replacing the term "inquiring mind."
 - Respondents were generally supportive of the revisions relating to the concept of "determination to act appropriately," technology, bias and organizational culture.
13. The IESBA revised its proposals to address the significant matters raised by respondents to the ED, taking into account the input provided by the CAG.
14. Key revisions to the proposals set out in the ED include:

⁷ Subsection 115, *Professional Behavior*

 Public Interest Oversight Board	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
---	--	---------------------------------------

BASIS FOR CONCLUSIONS: ROLE AND MINDSET

Section	Key Revisions to the ED
100	<ul style="list-style-type: none"> Removed the term “ethical values” Clarified that compliance with the Code includes “giving appropriate regard to the aim and intent of the specific requirements” Emphasized that compliance with the requirements of the Code does not mean that PAs will have always met their responsibility to act in the public interest
111	<ul style="list-style-type: none"> Replaced “determination to act appropriately” with “strength of character to act appropriately”
120	<ul style="list-style-type: none"> Clarified the concept of “having an inquiring mind” by refining the two key considerations involved with this way of thinking; and removed the phrase “critically evaluate” to avoid confusion about its relationship with “further investigation” More clearly explained that the requirement to have an inquiring mind applies to all PAs and that, under audit, review and other assurance standards, PAs in public practice are also required to exercise professional skepticism
120	<ul style="list-style-type: none"> Revised the description of groupthink as a category of bias and refined the actions that might mitigate the effect of bias
120	<ul style="list-style-type: none"> Clarified in paragraph 120.13 A3 the role of individual PAs to promote ethical behavior and culture in their organizations, with cross-reference to paragraph 120.13 A3 in Part 2, Section 200⁸ of the Code

III. Acting in the Public Interest

Responsibility to Act in the Public Interest

- The proposed revisions to Section 100 explained that compliance with the fundamental principles and application of the conceptual framework lie at the heart of compliance with the Code and play an important role in enabling PAs to meet their responsibility to act in the public interest. The IESBA also proposed to strengthen the fundamental principle of “professional behavior” in proposed paragraphs 110.1 A1 (e) and R115.1 (a) by including a requirement that PAs behave in a manner that is consistent with the profession’s responsibility to act in the public interest. This proposed revision was intended to reinforce the relationship between compliance with the fundamental principles and a PA’s responsibility to act in the public interest.
- Some respondents called for further explanation in the proposals to better describe these concepts to ensure that the PA’s responsibility and the proposed new requirement set out in

⁸ Section 200, *Applying the Conceptual Framework – Professional Accountants in Business*

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------


BASIS FOR CONCLUSIONS: ROLE AND MINDSET

paragraphs 110.1 A1 (e) and R115.1 (a) are clearly understood and there is consistent application across jurisdictions.

17. Other respondents did not support the proposed paragraphs 110.1 A1 (e) (i) and R115.1 (a). The key concern was that this proposed requirement appeared to have placed a personal duty on the individual PA to act in the public interest and arguably created a 6th fundamental principle. It was argued that upholding the public interest is the responsibility of the profession and that this responsibility is satisfied through PAs' compliance with the spirit and letter of the Code. The point was made that if the profession's responsibility was extended to each individual PA's personal conduct as an additional requirement, it would put individual PAs in an impossible position. It was further suggested that the profession's, or the individual PA's, public interest responsibility is already supported by compliance with all of the fundamental principles and does not need to be further highlighted in the fundamental principle of professional behavior.
18. On the other hand, a few respondents suggested that the proposed paragraphs 110.1 A1 (e) (i) and R115.1 (a) should reference a PA's responsibility to act in the public interest instead of the profession's responsibility and that this responsibility should also be mentioned in paragraph 110.1 A1 as it is relevant to compliance with all of the fundamental principles.

IESBA Decisions

19. The IESBA recognized the rationale for the suggestion from some of the respondents to include additional material to further explain the concepts of "public interest" and "acting in the public interest," i.e., that these are difficult concepts to understand. However, given the Code's global and principles-based nature, the IESBA did not consider that it would be practicable to include such an explanation in the Code. That is because, when determining whether a decision or action is in the public interest, a PA needs to take into consideration a broad range of factors, some of which may be particular to the circumstances or to jurisdictional or social expectations. The IESBA noted that whilst the concept of public interest has been a long-standing concept, previous attempts to define it have failed.
20. The IESBA considered the concern that the proposed material in paragraphs 110.1 A1 (e) (i) and R115.1 (a) had created a personal responsibility through a new 6th fundamental principle for PAs to act in the public interest. The IESBA did not agree that the proposed material would have such a consequence and noted that the concept of a PA having a responsibility to act in the public interest already exists in the extant Code in paragraph 100.1 A1.
21. To address concerns that the proposals might impose an undue requirement on individual PAs, the Task Force proposed an amendment to the proposed text in the ED so that a PA would be required to "[c]onsider the profession's responsibility to act in the public interest" (as opposed to being required to "[b]ehave in a manner that is consistent with the profession's responsibility to act in the public interest").
22. However, a number of representatives from the IESBA Consultative Advisory Group (CAG), as well as the PIOB, did not support such a proposal because they did not consider that the proposed revised text would convey strongly enough the importance of a PA's role with respect to his or her public interest responsibility.
23. Upon deliberation, the IESBA concluded that the proposed revisions to the principle of professional behavior in the ED helped to emphasize the importance of PAs being proactive in

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------

BASIS FOR CONCLUSIONS: ROLE AND MINDSET
acting in the public interest and should, therefore, be retained.

Letter and Spirit of the Code


24. As the IESBA recognizes that the Code will not be completely “up-to-date” at any given point in time or be able to fully address the changing expectations of the public, it formed the view that for PAs to display the ethical behavior expected of them, they need to comply not only with the letter of the Code but also with its spirit.
25. To explain the above point, the proposed text in the ED provided that “[c]ompliance with the Code... involves upholding the ethical values upon which the Code is based as well as complying with the specific requirements of the Code.” (Proposed paragraph 100.1 A1.)
26. A number of respondents queried the meaning of the term “ethical values” and whether it equates to the fundamental principles. Others questioned whether the term properly conveyed the IESBA’s view that PAs need to comply with the spirit of the Code and not just the letter of the Code.

IESBA Decisions

27. The IESBA considered a number of different terms or phrases in place of “ethical values” to convey its view with respect to PAs needing to comply with both the letter and spirit of the Code. However, none were considered sufficiently clear in conveying the IESBA’s view.
28. Upon deliberation, the IESBA determined that the intended meaning would be more effectively conveyed by replacing the proposed text with a new paragraph that states: “Complying with the Code includes giving appropriate regard to the aim and intent of the specific requirements.” This sentence is a clearer and more direct way to explain the IESBA’s intent that PAs need to comply not only with the letter of the Code but also with its spirit.

Relationship between Compliance with the Code and Public Interest

29. In developing the proposed material in the ED, the IESBA recognized that compliance with the Code does not mean that PAs will have necessarily discharged their responsibility to act in the public interest. The IESBA also recognized that compliance with the Code does not provide prima facie evidence, or a rebuttable assumption, that a PA has acted in the public interest. It also acknowledged that it does not have the authority to give such an assurance.
30. Whilst acknowledging the Board’s view, a number of respondents suggested that use of the words “enables” and “meeting” in the proposed paragraph 100.1 A1 could be taken as meaning that a PA’s compliance with the Code would in fact meet the PA’s responsibility to act in the public interest. There were also some concerns about potential translation issues. Alternatives suggested by some respondents included substituting:
 - “enables” with “facilitates,” “supports” or “assists.”
 - “meet their responsibility to act in the public interest” with “manage their responsibility to act in the public interest.”
 - “act in the public interest” with “consider the public interest.”
 - “act in the public interest” with “give due consideration to the public interest.”

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------

BASIS FOR CONCLUSIONS: ROLE AND MINDSET

IESBA Decisions

29. The IESBA reaffirmed its view that compliance with the requirements of the Code, including the fundamental principles, does not necessarily result in a PA meeting his or her responsibility to act in the public interest. The IESBA noted that in unusual or exceptional circumstances, compliance with the Code might not be in the public interest or meet a PA's responsibility to act in the public interest.
30. To more clearly express this view, the IESBA revised paragraph 100.3 A2 of the extant Code (paragraph 100.6 A3 in the final pronouncement) and added an introductory sentence:

“Compliance with the requirements of the Code does not mean that professional accountants will have always met their responsibility to act in the public interest.”
31. The IESBA also determined to retain the term “enables” as the term is already used in paragraph 100.1 A1 of the extant Code. The IESBA did not agree that use of this term implies that a PA's compliance with the Code will meet the PA's responsibility to act in the public interest in every instance.

IV. Strength of Character to Act Appropriately

32. The IESBA proposed new application material to the fundamental principle of "integrity" in Subsection 111 to emphasize the importance of PAs having the determination to act appropriately when confronting dilemmas or difficult situations.
33. Whilst respondents generally supported the IESBA's proposal to add such new application material, some respondents suggested that the word “determination” be replaced with other words, such as “fortitude,” “courage of conviction” or “strength of character” to more accurately describe the concept. Other respondents felt that the proposed wording did not go far enough to prevent a PA intending to act with integrity from ultimately “giving in” to external pressures.

IESBA Decisions

34. Upon deliberation, the IESBA replaced the phrase “determination to act appropriately” with “strength of character to act appropriately.” In reaching this decision, the IESBA considered that “strength of character” is the essential quality required if an individual is to have the determination to do the right thing and act accordingly.
35. In response to the suggestion that the proposed paragraph 111.1 A2 be strengthened, the IESBA considered the material in the extant paragraph 111.1 A1 and concluded that the text would be clearer if the concept of “having the strength of character to act appropriately” is added to paragraph 111.1 A1 after “fair dealing” and “truthfulness” instead of being part of a separate paragraph.

V. Having an Inquiring Mind

37. The IESBA proposed revisions to paragraph R120.5 of the Code to include a new element that PAs should “have an inquiring mind” when applying the conceptual framework. Its proposals also included new application material to explain the concept and highlight that it is different in scope from the exercise of professional skepticism when performing audits, reviews and other assurance engagements.

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------

BASIS FOR CONCLUSIONS: ROLE AND MINDSET

38. In developing the proposals in the ED, the IESBA took into account responses to the 2018 Consultation Paper and input received from the global roundtables. Some of the key factors the IESBA considered included that:
- The existing material in Section 120 already captures some of the behavioral characteristics expected of PAs.
 - The proposed material should be scalable as the type and level of investigation and assessment necessary may vary depending on the type of professional activities being undertaken and the related facts and circumstances.
 - Any proposed concept and terms used should not cause confusion with the use of the term “professional skepticism” in the context of audit, review and assurance engagements.
 - The proposed concept should form part of exercising professional judgement.
39. Respondents, including the Basel Committee on Banking Supervision (Basel Committee), were in large part supportive of the IESBA’s proposed material relating to the concept of “having an inquiring mind.”
40. There was strong support for the IESBA’s proposed approach of retaining the term “professional skepticism” for audit, review and other assurance work for the purposes of the Code. A few respondents were of the view that proposed paragraph 120.5 A5 in the ED should more clearly differentiate the concepts of “having an inquiring mind” and “exercising professional skepticism.”
41. Suggested refinements included recognizing the need to consider the integrity, source and relevance of the information obtained, and clarifying the difference between “further investigation” and “critical evaluation” in proposed paragraphs 120.5 A3 and 120.5 A4 in the ED.
42. Some respondents were of the view that the term “inquiring mind” is not appropriate or does not sufficiently capture the type and level of thinking or questioning necessary when conducting professional activities. Some felt that an inquiring mind is a softer concept than a “skeptical mind,” a “questioning mind” or applying “professional challenge.” There was a view that the concept sets a somewhat low bar for PAs. It was also argued that whilst any skilled occupation desires and can embrace an inquiring mind, PAs have a responsibility to challenge matters, not just accept them at face value, and to take the necessary action in addition to any investigation.

IESBA Decisions

43. Given the support received, the IESBA approved revisions to establish the concept of “having an inquiring mind” to capture the thinking that is required for PAs to apply the conceptual framework as they carry out their professional activities. The IESBA also reaffirmed its view that the concepts of an inquiring mind and professional judgment should be expressed in the Code as separate concepts under paragraph R120.5.
44. The IESBA made a number of refinements to strengthen the concept in paragraphs 120.5 A1 and 120.5 A2, including revisions to:
- The application material in paragraph 120.5 A1 to clarify that an inquiring mind is a prerequisite for obtaining an understanding of the known facts and circumstances required for the application of the conceptual framework.

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------

BASIS FOR CONCLUSIONS: ROLE AND MINDSET

- The two elements of “having an inquiring mind” in paragraphs 120.5 A1 (a) and (b). These now include a consideration of the source, relevance and sufficiency of information obtained as well as being open and alert to a need for further investigation or other action.

In doing so, the IESBA simplified the language by removing the term “critically evaluate” as having both this term and “further investigation” might create confusion about their meaning and how they should be applied.

45. The IESBA also considered the comments received regarding the relationship between having an inquiring mind and exercising professional skepticism. In coordination with the IAASB, the IESBA revised paragraph 120.5 A3 to make it clear that, in addition to having an inquiring mind (which is required for all professional activities), PAs undertaking engagements to which auditing, review and other assurance standards apply are also required to exercise professional skepticism, which includes a critical assessment of evidence. The IESBA also concluded that further explanation of the relationship and differences between these two concepts should be addressed through non-authoritative guidance material, rather than in the Code.
46. The IESBA considered suggestions for other terms in place of “inquiring mind,” including “questioning mindset” and “professional challenge.” The IESBA determined that the focus should be on the actions, characteristics and behaviors required of a PA rather than what a suitable covering term might be. As these suggested terms had been considered by the Board prior to approval of the proposed text for exposure, the IESBA determined that the term “inquiring mind” should be retained.


VI. Bias and Organizational Culture

Awareness of Bias

47. Although bias is already cited as a factor that may impact objectivity in Section 110, the IESBA had supported proposed new application material in the ED to highlight the importance of being aware of one’s bias in the effective exercise of professional judgment and application of the conceptual framework.
48. The IESBA included eight examples of bias in the ED. In doing so, it took into consideration the proposed material on bias contained in the IAASB’s recent ED, [International Standard on Auditing 220 \(Revised\), Quality Management for an Audit of Financial Statement](#) (ISA 220 (Revised) ED), which referred to four examples of bias: anchoring bias, availability bias, confirmation bias and overconfidence bias.
49. Respondents were generally supportive of the proposed material on the importance of being aware of the impact of bias in proposed paragraphs 120.12 A1 to 120.12 A3. The majority of the respondents’ comments related to the list of examples of bias set out in the proposed paragraph 120.12 A2. These comments included suggested changes to the proposed examples such as grouping similar types of biases together, deleting automation bias, and including additional examples, including authority bias, information bias, halo bias and background bias.

IESBA Decisions

50. With regards to the list of examples of bias, the IESBA:
 - Agreed to revise the description of “Groupthink.”

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------

BASIS FOR CONCLUSIONS: ROLE AND MINDSET

- Concluded that automation bias should be retained in the proposed list given the increasing role and significance of technology in the accounting, assurance and finance functions.
 - Determined that the additional examples of bias suggested by the respondents would not add substantive value as authoritative material.
51. To maintain proportion and balance in the Code and avoid undue prescription and complexity, the IESBA will consider the development of non-authoritative guidance material to discuss types of bias more comprehensively in due course.
51. Following coordination between this project and the IAASB's ISA 220 (Revised) project, the IAASB agreed to incorporate two examples of bias ("Automation Bias" and "Groupthink") from the Role and Mindset provisions into its proposed ISA 220 (Revised) text in addition to the existing four examples. The IAASB also agreed to align the description of all six examples of bias in ISA 220 (Revised) with those in the Role and Mindset provisions.
52. Finally, to strengthen the application material in paragraph 120.12 A3 relating to actions that might mitigate the impact of bias, the IESBA added a new example – receiving training relating to the identification of bias as part of professional development.

Importance of Organizational Culture

53. The IESBA proposed new application material in the ED to highlight the importance that a positive internal organizational culture has on the effective application of the conceptual framework (proposed paragraph 120.13 A1). In addition, the IESBA proposed application material to emphasize that such a culture is most effective when demonstrated by the organizations and their leaders acting ethically both internally and when dealing with third parties (proposed paragraph 120.13 A2). The proposed material also referenced the IAASB's proposed ISQM 1⁹ as a reminder of the importance of firm culture (proposed paragraph 120.14 A1 under a new subheading "Firm Culture").
54. Respondents generally agreed that organizational culture and leadership play a significant role in the ethical behavior of PAs and supported the proposals set out in paragraphs 120.13 A1 to 120.14 A1.
55. With respect to those conditions listed in the proposed paragraph 120.13 A2 that would most effectively create an ethical culture within an organization:
- Some respondents highlighted the importance of whistle-blowing policies and procedures that protect those who choose to report unethical behavior in promoting an ethical organizational culture. They recommended that such policies be included in paragraph 120.13 A2.
 - Other suggested changes and additions included, amongst other matters, a clearer concept of "tone at the top," monitoring and investigation policies and procedures, corporate risk management plans, reward criteria and open and frequent communication.
56. Several respondents were of the view that the responsibility to promote an ethical culture within an organization is not restricted to those at the top. They suggested that the new application

⁹ Proposed ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------

BASIS FOR CONCLUSIONS: ROLE AND MINDSET

material should highlight a PA's responsibility to promote such culture, irrespective of their role and the prevailing organizational ethical culture.

57. The Basel Committee further noted that, as organizational culture should not affect the applicability of the Code, the Code should clearly explain that its requirements apply regardless of the organizational culture within which a PA operates.

IESBA Decisions

58. After duly reflecting on the comments received, the IESBA agreed to strengthen the material on the conditions for the effective promotion of an ethical organizational culture in paragraph 120.13 A2 by:

- Clarifying that leaders and those in managerial roles have a role in promoting the importance of the ethical values of the organization.
- Recognizing the role of reward criteria and effective policies and procedures that encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers.

59. Upon deliberation, the IESBA also approved a new paragraph (paragraph 120.13 A3) that reminds individual PAs of their role in promoting ethical behavior and culture in their organization, taking into account their position and seniority. The language of the new application material is drawn from the extant paragraph 200.5 A3 in Part 2 of the Code, with a reference added in the latter to the new paragraph 120.13 A3.

60. The IESBA also determined that further revisions to the proposals to address the Basel Committee's comment are not necessary as the proposed paragraphs 120.13 A1 to 120.13 A2 do not suggest, or are not likely to be perceived as suggesting, that individual PAs can use a poor ethical culture within their organizations as a reason not to comply with the requirements of the Code.

VII. Other Significant Matters


The Impact of Technology

61. Although the IESBA's Technology Working Group was not due to present its Phase 1 final report and recommendations for the Board's consideration until December 2019,¹⁰ the IESBA considered that it should not defer including appropriate reminders in Part 1 of the Code about the potential impact of technology on compliance with the Code.

62. The IESBA proposed to:

- Revise the description of "objectivity" in Part 1 of the Code to highlight the risks of technology impairing a PA's objectivity.
- Include "automation bias" in the list of examples of bias in paragraph 120.12 A2.

¹⁰ The IESBA released its [Technology Working Group Phase 1 Final Report](#) in February 2020

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------

BASIS FOR CONCLUSIONS: ROLE AND MINDSET

- Highlight the importance of maintaining an awareness and understanding of technology-related developments when complying with the fundamental principle of “professional competence and due care” in Subsection 113.¹¹

63. Respondents were generally in agreement that material to address technology-related issues in greater detail should be developed as part of the IESBA’s project on [technology](#). They did not consider that there were any additional technology-related matters that should be addressed as part of the Role and Mindset project beyond those proposed in the ED.

IESBA Decisions

64. In light of the comments received, the IESBA concluded that further revisions to address the impact of technology were not necessary as part of this project.

The Description of Objectivity

65. In addition to the above proposed changes to highlight the risks of technology, the IESBA also proposed to revise the description of “objectivity” so it is expressed more positively.

66. Respondents were generally supportive of the IESBA’s proposals in this regard.

IESBA Decisions

67. In light of the comments received, the IESBA concluded that no further revisions to the text were necessary.

VIII. Effective Date

68. Some respondents to the ED have called for a period of stability, particularly with respect to the newly enhanced conceptual framework after the Revised and Restructured Code became effective in June 2019.

69. The IESBA noted that this project was a strategic pre-commitment to respond to longstanding public interest concerns about strengthening the Code with respect to PAs’ responsibilities on the topic of “professional skepticism.” Given the principles-based nature of the final provisions and the fact that they are not extensive, the IESBA does not anticipate an inordinate burden as regards their implementation. The IESBA determined that 12 to 18 months from issuance of the approved text should provide for a reasonable lead time for adoption and implementation.

70. Accordingly, the IESBA set the effective date of the final provisions to be as of December 31, 2021. Early adoption will be permitted.

¹¹ Subsection 113, *Professional Competence and Due Care*, paragraph 113.1 A2

	64th MEETING OF THE PIOB TECHNICAL COMMITTEE 28-30 SEPTEMBER 2020 VIRTUAL MEETING	Agenda Item 1.2.3
--	---	------------------------------

COPYRIGHT, TRADEMARK, AND PERMISSIONS INFORMATION

The *International Code of Ethics for Professional Accountants (including International Independence Standards)*, Exposure Drafts, Consultation Papers, and other IESBA publications are published by, and copyright of, IFAC.

The IESBA and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The 'International Ethics Standards Board for Accountants', '*International Code of Ethics for Professional Accountants (including International Independence Standards)*', 'International Federation of Accountants', 'IESBA', 'IFAC', the IESBA logo, and IFAC logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

Copyright © September 2020 by the International Federation of Accountants (IFAC). All rights reserved. Written permission from IFAC is required to reproduce, store or transmit, or to make other similar uses of, this document, save for where the document is being used for individual, non-commercial use only. Contact permissions@ifac.org.

ISBN: 978-1-60815-429-6

Published by:

