



**3 December 2014**

**To: Members of the Hong Kong Institute of CPAs  
All other interested parties**

**INVITATION TO COMMENT ON IFAC'S INTERNATIONAL  
ETHICS STANDARDS BOARD FOR ACCOUNTANTS (IESBA)  
EXPOSURE DRAFT ON PROPOSED CHANGES TO PART C OF  
THE CODE ADDRESSING PRESENTATION OF INFORMATION  
AND PRESSURE TO BREACH THE FUNDAMENTAL  
PRINCIPLES**

***Comments to be received by 6 March 2015***

The Hong Kong Institute of Certified Public Accountants' (Institute) Ethics Committee is seeking comments on the IESBA Exposure Draft (ED) on proposed changes to the Code of Ethics for Professional Accountants (Code) which has been posted on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/code-of-ethics/exposure-drafts/>

The IESBA defines professional accountants in business (PAIBs) as accountants employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not-for-profit sector, regulatory bodies or professional bodies, or professional accountants contracted by such entities.

The IESBA's proposals aim to respond to the need for more robust and practical guidance to help PAIBs deal with two matters on which they most often seek assistance in practice: their responsibility to produce financial reports that are faithful representations of the economics of transactions, and pressure to breach fundamental ethical principles.

Among the proposed changes are:

- Fuller and more explicit guidance regarding PAIBs' responsibilities when preparing and presenting information;
- Strengthened guidance on how a PAIB can disassociate from misleading information;
- An expanded description of pressure that may lead to a breach of the fundamental principles in the Code together with practical examples to illustrate different kinds of situations in which such pressure may arise; and
- New guidance to assist PAIBs in identifying and responding to pressure that could result in a breach of the fundamental principles.



The IESBA is also proposing a number of related changes to other areas within Part C of the Code.

The Explanatory Memorandum to the Exposure Draft provides further background information on, and explanation of, the proposed changes.

The Ethics Committee invites all interested parties to comment on the IESBA's proposals. Comments should be supported by specific reasoning and should be submitted in written form. It would be helpful if respondents' comments could include the areas set out in the Request for Specific Comments section on page 13 of the Exposure Draft.

Comments may be sent by mail, fax or e-mail to:

Standard Setting Department  
Hong Kong Institute of Certified Public Accountants  
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213 Queen's Road East  
Hong Kong

Fax number (+852) 2865 6776  
E-mail: [commentletters@hki CPA.org.hk](mailto:commentletters@hki CPA.org.hk)

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

3 December 2014  
Exposure Draft

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Response Due Date  
6 March 2015

*ED of Proposed Changes to the Code of Ethics*

## **Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles**



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

## CONTENTS

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Exposure Draft of Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles

The Exposure Draft can also be found on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/code-of-ethics/exposure-drafts/>

## Exposure Draft

November 2014

*Comments due: April 15, 2015*

*International Ethics Standards Board for  
Accountants®*

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# Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles

**IESBA**

International  
Ethics Standards  
Board for Accountants®

The IESBA® is an independent standard-setting board that develops and issues high-quality ethical standards and other pronouncements for professional accountants worldwide. Through its activities, the IESBA develops the *Code of Ethics for Professional Accountants™*, which establishes ethical requirements for professional accountants.

The objective of the IESBA is to serve the public interest by setting high-quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, including auditor independence requirements, through the development of a robust, internationally appropriate code of ethics.

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

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## REQUEST FOR COMMENTS

This Exposure Draft, *Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles*, was developed and approved by the International Ethics Standards Board for Accountants® (IESBA®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by April 15, 2015.**

Respondents are asked to submit their comments electronically through the IESBA website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Technical Director at [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org).

This publication may be downloaded from the IESBA website: [www.ethicsboard.org](http://www.ethicsboard.org). The approved text is published in the English language.

## CONTENTS

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|  | Page |
|--|------|
| Introduction.....  | 5    |
| Background .....   | 5    |
| Significant Matters.....                                     | 6    |
| Analysis of the Overall Impact of the Proposed Changes ..... | 12   |
| Project Timetable and Effective Date.....                    | 12   |
| Guide for Respondents .....                                  | 13   |
| Request for Specific Comments .....                          | 13   |
| Request for General Comments .....                           | 14   |
| SECTION 320 (MARK-UP) .....                                  | 15   |
| PROPOSED SECTION 370 (MARK-UP).....                          | 18   |
| SECTION 300 (MARK-UP) .....                                  | 21   |
| SECTION 310 (MARK-UP) .....                                  | 25   |
| SECTION 330 (MARK-UP) .....                                  | 25   |
| SECTION 340 (MARK-UP) .....                                  | 25   |
| SECTION 320 (CLEAN).....                                     | 28   |
| PROPOSED SECTION 370 (CLEAN) .....                           | 30   |
| SECTION 300 (CLEAN).....                                     | 33   |
| SECTION 310 (CLEAN).....                                     | 36   |
| SECTION 330 (CLEAN).....                                     | 36   |
| SECTION 340 (CLEAN).....                                     | 36   |

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# EXPLANATORY MEMORANDUM

## Introduction

This memorandum provides background for, and an explanation of, the proposed changes to a number of sections in Part C of the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* (the Code) addressing professional accountants in business (PAIBs). The changes deal principally with the ethical responsibilities of PAIBs with respect to the presentation of information and the issue of pressure by superiors and others to breach the fundamental principles in the Code. The IESBA approved these proposed changes for exposure in October 2014.

The IESBA welcomes all comments on the proposed changes. In addition to general comments, the IESBA welcomes comments on the specific questions that are contained at the end of this memorandum.

## Background

Over half of the world's professional accountants are PAIBs in the traditional sense, i.e., accountants who work on their own or in organizations other than public accounting practices. PAIBs are a very diverse constituency, and work as employees or consultants in commerce, industry, education, and the public and not-for-profit sectors. Many are in a position of strategic or functional leadership, or are otherwise well-placed to collaborate with colleagues in other disciplines to help their organizations toward long-term sustainable success.

Given that many PAIBs play a fundamental role in the financial reporting supply chain and facilitate effective governance in organizations, it is in the public interest that the provisions of the Code applicable to PAIBs are appropriate and robust.

In February 2012, the IESBA established a Working Group to determine whether, in light of reported accounting irregularities at certain companies, strengthening Part C of the Code would better promote ethical behavior by PAIBs. In addition, Part C had received less attention than other parts of the Code in recent years and, therefore, the IESBA considered that a review of the Part C provisions would be appropriate.

To understand the ethical issues on which PAIBs need support, in Q2 2012 the Working Group asked a number of IFAC member bodies with large proportions of PAIBs in their memberships about the issues on which PAIBs contact their member bodies' ethics help lines. This survey identified a list of issues for the IESBA's potential consideration. To prioritize the issues identified, the Working Group undertook a broader survey of IFAC member bodies in Q3 2012.

On the basis of the input from those surveys as well as from the IFAC PAIB Committee and the IESBA Consultative Advisory Group (CAG), the Working Group identified a number of key recommendations<sup>1</sup> for a review of Part C, namely that the IESBA prioritize consideration of the following matters:

- The responsibility of PAIBs to produce financial reports that are faithful representations of the economics of transactions, and associated matters;
- Pressure by superiors and others to engage in unethical or illegal acts; and
- Facilitation payments and bribes.

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<sup>1</sup> The Working Group's final report and recommendations can be accessed [here](#).

In March 2013, the IESBA approved a project to address these matters in two separate phases, with the first two under Phase 1 and the third one (concerning Section 350<sup>2</sup>) under Phase 2. This Exposure Draft deals with Phase 1 of the project.

The IESBA believes that enabling PAIBs to, in particular, better deal with the issue of inappropriate pressure on them, especially with respect to the presentation of information, will contribute to the public interest because such pressure may undermine the quality of information on which users rely.

## Significant Matters

### Proposed Revised Section 320, *Presentation of Information*

#### *Title of the Section*

The IESBA proposes to amend the title of Section 320 from “Preparation and Reporting of Information” to “Presentation of Information.” This is intended to broaden the focus of the section beyond written reports. Presentation of information is intended to incorporate preparation and reporting of information in this regard.

#### *Scope of the Section*

Although extant Section 320<sup>3</sup> addresses all forms of information, the emphasis is on external financial information. The IESBA believes that it is important to raise the profile of information other than external financial information to recognize that PAIBs present both financial and non-financial information for both internal and external purposes. Accordingly, paragraph 320.1 explains that information with which PAIBs may be involved includes both financial and non-financial information that may be made public or used for internal purposes. It also provides broader examples of such information to illustrate what the scope of this section covers. The requirements of the Section then apply consistently to all information, partly because a PAIB may not know whether his or her work may end up within external financial information.

#### *The Meaning of the “Fair and Honest” Principle*

The Code currently requires PAIBs to prepare information “fairly and honestly” but provides little guidance as to what this important principle means. The IESBA believes it would be helpful to elaborate on this by providing enhanced guidance to assist PAIBs in better understanding and adhering to the spirit of this principle. Accordingly, the IESBA proposes to:

- (a) Make clear that a PAIB who is responsible for recording, maintaining, preparing or presenting information must do so in a manner that is fair and honest, *in accordance with the fundamental principles*; and
- (b) Explain that doing so in a manner that is “fair and honest” includes:
  - Preparing or presenting information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
  - Not omitting information with the intention of rendering the information misleading; and

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<sup>2</sup> Section 350, *Inducements*

<sup>3</sup> Section 320, *Preparation and Reporting of Information*

- Presenting the information in accordance with a relevant reporting framework, where applicable. (See paragraph 320.2.)

The Code currently also requires PAIBs to take reasonable steps to maintain information for which the PAIB is responsible in a manner that:

- Describes clearly the true nature of business transactions, assets, or liabilities;
- Classifies and records information in a timely and proper manner; and
- Represents the facts accurately and completely in all material respects.

The IESBA believes that this requirement would be better placed as an elaboration of the overarching “fair and honest” principle. Accordingly, the IESBA proposes to repurpose it as guidance in support of this overarching principle. (See paragraph 320.2.)

The Code currently further requires a PAIB who has responsibility for the preparation or approval of the general purpose financial statements of an employing organization to be satisfied that those financial statements are presented in accordance with the applicable financial reporting standards. The IESBA believes that this requirement may unnecessarily duplicate what an applicable financial reporting framework would already require. Accordingly, the IESBA proposes that it not be carried forward as a separate requirement in the revised Section 320 but that, instead, it be added as guidance to emphasize that the “fair and honest” principle includes presenting information in accordance with a relevant reporting framework where applicable (see paragraph 320.2).

The Code currently refers to preparing or presenting information fairly and honestly and in accordance with relevant professional standards *so that it will be understood in its context*. The IESBA believes that it is important for PAIBs to also have regard to the *purpose* for which the information is to be used and the *audience* to whom it is addressed in order that those who may rely on the information are able to form their own judgments. This is especially so given that PAIBs may be involved in the preparation or presentation of information that is not required to be prepared in accordance with an applicable reporting framework. Such information is very wide ranging and extends from formal information for external users to ad hoc internal notes. Accordingly, the IESBA proposes guidance to emphasize these three important considerations of purpose, context and audience. As an illustration, the IESBA proposes an example of what the preparation or presentation of financial information such as pro forma reports, budgets or forecasts would specifically entail, i.e., that the relevant estimates, approximations and assumptions are included to enable users to form their own judgments (see paragraph 320.4).

The IESBA also believes that the section should recognize that PAIBs often may rely on the work of others in presenting information. The IESBA is of the view that use of the work of others should not absolve the PAIB of the responsibility to comply with the “fair and honest” principle. Accordingly, the IESBA proposes that the PAIB be required in these circumstances to take reasonable steps to be satisfied that work performed by others enables the PAIB to fulfill the obligations that flow from that overarching principle (see paragraph 320.5).

#### Misuse of Discretion

Preparing or presenting financial information often involves the use of judgment and discretion, for example, in determining accounting estimates. Substantial academic research over the past 30 years shows that discretion under the applicable financial reporting framework may be misused to misrepresent an entity’s economic situation or performance. An example of misuse of discretion under the applicable financial reporting framework leading to misrepresentation is “big bath” accounting, which involves

recognizing a loss that is larger than management believes is justified in the circumstances, but which does not violate the applicable financial reporting framework. The overstated loss creates a “cookie-jar” reserve that can be used flexibly to overstate income in subsequent periods.

The existence of misuse of discretion under the applicable financial reporting framework is acknowledged in auditing standards. For example:

- International Standard on Auditing (ISA) 540<sup>4</sup> requires the auditor to review the judgments and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias. ISA 540 defines management bias as “a lack of neutrality by management in the preparation of information.” It also explains the following:
  - A9. Financial reporting frameworks often call for neutrality, that is, freedom from bias. Accounting estimates are imprecise, however, and can be influenced by management judgment. Such judgment may involve unintentional or *intentional management bias* (for example, as a result of motivation to achieve a desired result). ...
  - A10. Management bias can be difficult to detect at an account level. It may only be identified when considered in the aggregate of groups of accounting estimates or all accounting estimates, or when observed over a number of accounting periods. Although some form of management bias is inherent in subjective decisions, in making such judgments there may be no intention by management to mislead the users of financial statements. *Where, however, there is intention to mislead, management bias is fraudulent in nature.* [Emphases added]
- ISA 540 provides examples of indicators of possible management bias with respect to accounting estimates such as:<sup>5</sup>
  - Using an entity’s own assumptions for fair value accounting estimates when they are inconsistent with observable marketplace assumptions; and
  - Selecting or constructing significant assumptions that yield a point estimate favorable for management objectives.
- ISA 240<sup>6</sup> requires the auditor to review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. It also explains the following:
  - A45. The preparation of the financial statements requires management to make a number of judgments or assumptions that affect significant accounting estimates and to monitor the reasonableness of such estimates on an ongoing basis. *Fraudulent financial reporting is often accomplished through intentional misstatement of accounting estimates.* This may be achieved by, for example, understating or overstating all provisions or reserves in the same fashion so as to be designed either to smooth earnings over two or more accounting periods, or to achieve a designated earnings level in order to deceive financial statement users by influencing their perceptions as to the entity’s performance and profitability. [Emphasis added.]

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<sup>4</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>5</sup> ISA 540, paragraph A125

<sup>6</sup> ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

Discretion may also be misused in other ways to misrepresent an entity's financial position, financial performance or cash flows while complying with the applicable financial reporting framework, in particular, in:

- Selecting a particular accounting treatment among two or more options provided by the applicable financial reporting framework; for example, selecting a permitted revenue recognition option to manipulate income.
- Determining the timing of transactions; for example, timing revenue transactions to manipulate income.
- Determining the structuring of transactions; for example, structuring financing transactions to manipulate the entity's financial position.
- Determining disclosures; for example, omitting or obscuring information so that materially different items are not distinguished in order to mislead.

While the Code deals with the issue of misuse of discretion at the level of fundamental principles (in particular, through the fundamental principle of integrity), it does not explicitly address the above circumstances. The IESBA therefore believes that it would be in the public interest to provide enhanced guidance in Section 320 addressing these specific circumstances to enable PAIBs to better recognize and deal with the issue in those circumstances, thereby helping them to fulfill their responsibility to prepare or present information fairly and honestly (see paragraph 320.3).

With the above proposed changes, the IESBA believes that there is now greater clarity as to what the overarching "fair and honest" principle means with respect to PAIBs' involvement in the presentation of information. The changes also have made the section less prescriptive but more practical through fuller and more explicit guidance as to what complying with this principle entails.

#### *Disassociation from Misleading Information*

The Code currently requires a PAIB to take steps to be disassociated from misleading information (extant paragraphs 110.2 and 320.7), but provides no guidance as to how a PAIB can disassociate from misleading information. Examples of ways to disassociate are provided in paragraph 100.24, but the only example that is relevant to a PAIB is to resign from the employing organization.

The IESBA therefore proposes enhanced guidance to assist the PAIB when facing possible association with misleading information. Prior to consideration of any disassociation from that information, the IESBA believes that it would be important for the PAIB to first take steps to resolve the matter. Accordingly, paragraph 320.6 introduces a requirement to that effect. It then suggests a number of possible steps the PAIB could take to resolve the matter, including seeking guidance from an internal ethics policy and discussing the concerns with the PAIB's supervisor.

If attempts to resolve the matter are unsuccessful, the IESBA proposes a number of practical steps a PAIB may consider in order not to be associated with misleading information (see paragraph 320.7). If after exhausting all possible options the information is still misleading, the PAIB would be required to refuse to be or to remain associated with the information, consistent with the current Code and with the fundamental principle of integrity. The IESBA also believes that in these circumstances the PAIB should be required to consider his or her continuing relationship with the employing organization. (See paragraph 320.8.)

Finally, the IESBA proposes that the PAIB be encouraged to document the facts, the accounting principles or other relevant professional standards involved, and the communications and parties with whom these matters were discussed (see paragraph 320.9).

### **Proposed Section 370, *Pressure to Breach the Fundamental Principles***

#### *A New Section 370*

Section 340<sup>7</sup> currently addresses circumstances that may create self-interest, familiarity and self-review threats for a PAIB to act unethically based on a motivation of financial gain for the PAIB or the PAIB's immediate or close family members. It is limited and does not address other forms of pressure and motives other than financial gain. Further, Section 320 currently recognizes the possible existence of pressure on the PAIB to prepare or report information in a misleading way (or to become associated with misleading information through the actions of others) as a factor giving rise to threats to compliance with the fundamental principles. However, Section 320 does not address the issue of pressure in a substantive way. In addition, Section 350<sup>8</sup> touches only briefly on situations in which a PAIB may be pressured to participate in a bribe.

Given that findings from the research undertaken by the IESBA indicate that pressure is the issue on which PAIBs most frequently seek guidance from their member bodies' "help lines," the IESBA determined that it would be in the public interest for the Code to provide more robust and practical guidance on how a PAIB should respond when facing pressure that may result in a breach of the fundamental principles. Accordingly, the IESBA proposes to establish a new Section 370 to enable more detailed guidance to be provided in a clearer way, including a process to follow to deal with the issue. The new Section would apply to all situations in which pressure from a *superior or others* threatens compliance with the fundamental principles.

#### *Description of Pressure and Scope of Section 370*

Within the new section, the IESBA proposes to articulate a more specific description of pressure, i.e., that it may be explicit or implicit, and that it may come from a variety of sources within or outside the organization (see paragraph 370.1). The IESBA also proposes a wide variety of practical examples to illustrate different kinds of situations in which pressure may arise (see paragraph 370.4). Given that the definition of a PAIB is broad and includes, for example, professional accountants working in the public sector, the guidance includes a specific example involving public sector accountants.

Some types of pressure do not necessarily result in a breach of the fundamental principles, for example, routine pressure that a PAIB may face when subject to a deadline on a particular work assignment. These types of pressure are outside the scope of this new Section.

#### *Overarching Principles*

The IESBA proposes to establish two new overarching principles in Section 370. First, the Section introduces a requirement for the PAIB not to allow pressure to result in a breach of the fundamental principles (see paragraph 370.1).

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<sup>7</sup> Section 340, *Financial Interests, Compensation, and Incentives Linked to Financial Reporting and Decision Making*

<sup>8</sup> Section 350, *Inducements*

Secondly, paragraph 300.5<sup>9</sup> currently refers to the expectation of a PAIB holding a senior position within an organization to encourage an ethics-based culture. However, there is no requirement for the PAIB not to inappropriately pressure subordinates. Accordingly, the IESBA proposes that Section 370 prohibit a PAIB from placing pressure on others that would result in a breach of the fundamental principles (see paragraph 370.2). The IESBA believes that this prohibition is appropriate because there should be no circumstances in which it would be acceptable for a PAIB to exert pressure on others to breach the fundamental principles.

*Identifying Pressure That Could Result in a Breach of the Fundamental Principles*

PAIBs will always face circumstances involving pressure. Pressure is subjective. For example, in circumstances where pressure is needed to achieve a particular objective, such pressure may be perceived as reasonable by the organization or the PAIB's supervisor but potentially unreasonable by the PAIB. To assist the PAIB in better distinguishing between pressure that *could* lead to a breach of the fundamental principles from pressure that would not lead to a breach of the fundamental principles, the IESBA proposes guidance setting out a number of contextual considerations the PAIB may take into account, rather than focusing on an evaluation of the pressure itself. These contextual considerations include policies and procedures specified in the organization's internal ethics policy, the corporate culture and leadership of the organization, and discussion with the individual exerting the pressure to clarify his or her intent (see paragraph 370.5).

*Responding to Pressure That Would Result in a Breach of the Fundamental Principles*

The IESBA proposes guidance in paragraph 370.6 setting out a number of actions the PAIB may wish to consider after he or she has determined that the pressure *would* lead to a breach of the fundamental principles. The IESBA recognizes that some of the contextual considerations in paragraph 370.5 and the potential actions the PAIB may take in paragraph 370.6 overlap. For example, engaging in constructive challenge with the individual exerting the pressure may address the pressure and/or clarify whether the pressure is of a routine day-to-day nature.

In circumstances where the PAIB determines that the pressure that would result in a breach of the fundamental principles cannot be alleviated or eliminated, the IESBA believes that the PAIB should be required to decline to undertake, or discontinue, the professional activity. The IESBA also believes that the PAIB should be required in the circumstances to consider resigning from the employing organization (see paragraph 370.7). The Section also includes guidance encouraging the PAIB to document the relevant facts and circumstances in such a situation (see paragraph 370.8).

**Related and Conforming Changes to Sections 300, 310,<sup>10</sup> 330<sup>11</sup> and 340**

As noted above, paragraph 300.5 currently sets out an expectation of a PAIB holding a senior position within an organization to encourage an ethics-based culture. The IESBA believes that the concept of an ethics-based culture embodies an important principle. That is, if such a culture is established it can encourage ethical behavior throughout the organization and increase the likelihood of issues being brought to the attention of senior management so that they can be addressed in a timely manner.

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<sup>9</sup> Section 300, *Introduction*

<sup>10</sup> Section 310, *Conflicts of Interest*

<sup>11</sup> Section 330, *Acting with Sufficient Expertise*

Accordingly, the IESBA believes that there would be benefit in providing expanded guidance on this matter in Section 300 (see paragraph 300.5).

Other changes of a conforming nature have been proposed to Sections 300, 310, 330 and 340.

### **Analysis of the Overall Impact of the Proposed Changes**

The IESBA believes that the impact of the proposed changes overall will be positive. PAIBs working in all sizes of businesses and in the public sector will have more comprehensive and practical guidance to assist them in dealing with two of the ethical issues the IESBA's research has shown to be most important to them, namely:

- How to fulfill their ethical responsibilities when they are involved in the presentation of information; and
- Pressure by superiors and others to breach the fundamental principles.

In particular, PAIBs are the first line of defense in ensuring that financial reports their organizations produce are faithful representations of the economics of transactions. The proposed enhanced guidance in Section 320 will have positive impacts for users of financial reports, including investors, lenders and other creditors. The changes have also clarified what it means for PAIBs to prepare or present information in a manner that is fair and honest, and what considerations they should bear in mind in doing so.

Further, the proposed enhanced guidance on pressure will assist PAIBs in better identifying and addressing pressure that could lead to a breach of the fundamental principles, thereby helping them better meet their responsibility to act in the public interest.

In addition, the enhancements to the guidance in Section 300 addressing the establishment and maintenance of an ethics-based culture within an organization will have a positive impact in terms of setting an appropriate tone at the top and promoting ethical behavior throughout the organization. There may, however, be some costs involved to identify, implement and oversee safeguards in the work environment to encourage or promote such a culture if these are not already in place, including the implementation of appropriate policies and procedures to that effect.

### **Project Timetable and Effective Date**

Subject to comments received on the Exposure Draft, the IESBA intends to finalize the changes to the Code under the current drafting conventions in the second half of 2015.

The IESBA is currently undertaking another project on restructuring the Code in respect of which it has recently issued a Consultation Paper, [\*Improving the Structure of the Code of Ethics for Professional Accountants\*](#). The IESBA has committed to coordinating its project on the review of Part C with its project on restructuring the Code, which may involve restructuring the final changes arising from this Exposure Draft to align with the approach agreed for restructuring the overall Code. Any restructuring of the final changes arising from this Exposure Draft will not involve changes in meaning of the provisions.

The IESBA will consider and communicate in due course the timing of issuance of the final changes relating to this Exposure Draft, and therefore the effective date of these changes, taking into account developments from the restructuring project.



## Guide for Respondents

The IESBA welcomes comments on all matters addressed in the Exposure Draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this Exposure Draft (especially those calling for change in current practice), it will be helpful for the IESBA to be made aware of this view.

## Request for Specific Comments

The IESBA would welcome views on the following specific questions:

### *Proposed Revised Section 320*

1. Is the enhanced guidance on applying the “fair and honest” principle in Section 320 helpful?
2. In particular, do respondents support the guidance in paragraph 320.3 addressing the issue of misuse of discretion in a manner that is intended to mislead? If not, please explain why. Are there any other considerations relating to this issue that should be addressed in Section 320?
3. Paragraph 320.4 provides guidance as to what PAIBs are expected to do ethically in order to prepare or present fairly and honestly information that does not have to comply with a relevant reporting framework. Is this guidance sufficient? If not, what further guidance could Section 320 usefully provide?
4. Do respondents agree that where a PAIB relies on the work of others, the PAIB should be required to take reasonable steps to be satisfied that such work enables the PAIB to comply with the overarching principle in paragraph 320.2?
5. Do respondents agree with the guidance proposed in paragraphs 320.6 and 320.7 regarding disassociation with misleading information? Are there other actions that could be specified?

### *Proposed Section 370*

1. Do respondents agree with the overarching requirements in paragraphs 370.1 and 370.2?
2. Are the illustrative examples of types of pressure that could result in a breach of the fundamental principles in paragraph 370.4 helpful?
3. Is it sufficiently clear that Section 370 addresses pressure that could result in a breach of fundamental principles, as opposed to the routine pressures that exist in the workplace? In particular, does paragraph 370.5 provide sufficient guidance to assist the PAIB in making that distinction? If not, what other considerations should the PAIB take into account?
4. Do respondents find the guidance in paragraph 370.6 on responding to pressure that would result in a breach of the fundamental principles helpful? Are there other actions that should be considered?
5. Are the references to other sections of Part C of the Code, in paragraph 370.9, helpful?

## Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- (a) *Preparers (including Small and Medium Entities), and users (including regulators)*—The IESBA invites comments on the proposed changes from preparers (particularly with respect to the practical impacts of the proposed changes), and users.
- (b) *PAIBs working in the public sector*— Recognizing that many PAIBs work in the public sector, the IESBA invites respondents from this constituency to comment on the proposed changes, and in particular, on their applicability and usefulness in a public sector environment.
- (c) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular, on any foreseeable difficulties in applying them in their environment.
- (d) *Translations*—Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed changes.

# PROPOSED CHANGES TO PART C OF THE CODE ADDRESSING PROFESSIONAL ACCOUNTANTS IN BUSINESS

The relevant sections have been extracted below from the extant Code, which can be accessed at [2014 Handbook of the Code of Ethics for Professional Accountants](#).

## PROPOSED REVISED SECTION 320 AND PROPOSED NEW SECTION 370 (MARK-UP FROM 2014 CODE)

### SECTION 320

#### Preparation and Reporting Presentation of Information

320.1 Professional accountants in business are ~~often~~ involved in the preparation and ~~reporting presentation~~ of information ~~that may be either made public or used by others to stakeholders both inside or and outside the employing organization. Such stakeholders include management, those charged with governance, investors, regulators, lenders and other creditors.~~

This information may assist stakeholders in understanding and evaluating aspects of the organization's state of affairs and in making decisions concerning the organization. Such information may include financial or management and non-financial information that may be made public or used for internal purposes.

~~for e~~Examples include:

- Operating and performance reports.
- Decision support analyses.
- Budgets and forecasts, and budgets,
- Information provided to the internal and external auditors.
- Risk analyses.
- General and special purpose financial statements, management's discussion and analysis, and the management letter of representation provided to the auditors during the audit of the entity's financial statements.
- Tax returns.
- Reports filed with regulators for legal and compliance purposes.

320.2 A professional accountant ~~in business shall who~~ is responsible for recording, maintaining, ~~preparing~~ or presenting ~~such~~ information ~~shall do so in a manner that is fairly, and honestly, and in accordance with the fundamental principles. This includes: relevant professional standards so that the information will be understood in its context.~~

- Preparing or presenting information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- Not omitting information with the intention of rendering the information misleading; and
- Presenting the information in accordance with a relevant reporting framework, where applicable.

~~320.2 A professional accountant in business who has responsibility for the preparation or approval of the general purpose financial statements of an employing organization shall be satisfied that those financial statements are presented in accordance with the applicable financial reporting standards.~~

~~320.3 A professional accountant in business shall~~ This responsibility involves taking reasonable steps to maintain information for which the professional accountant in business is responsible in a manner that:

- ~~Represents the facts accurately and completely in all material respects;~~
- Describes clearly the true nature of business transactions, ~~assets,~~ or ~~liabilities~~ activities; and
- ~~Classifies and records information in a timely and proper manner;~~ and
- ~~Represents the facts accurately and completely in all material respects.~~

320.3 Preparing or presenting financial information often involves judgment and discretion. Preparing or presenting such information fairly and honestly requires the professional accountant not to exercise such discretion in a manner that is intended to mislead, including when:

- Determining estimates. For example, over- or under-accruing warranty expenses in order to manipulate income.
- Selecting a particular accounting method among two or more alternatives permitted under the applicable financial reporting framework. For example, selection of one method from among alternative revenue recognition methods in order to manipulate income.
- Determining the timing of transactions. For example, timing revenue transactions in order to manipulate income.
- Determining the structuring of transactions. For example, structuring financing transactions in order to manipulate the statement of financial position or the cash flow statement.
- Determining disclosures. For example, omitting or obscuring information so that materially different items are not distinguished in order to mislead.

320.4 An important factor for the professional accountant to consider is having regard to the purpose for which the information is to be used, the context in which it is provided and the audience to whom it is addressed. For example, preparing or presenting financial information such as pro forma reports, budgets or forecasts would require the professional accountant to include relevant estimates, approximations and assumptions that are necessary to enable those who may rely on such information to form their own judgments.

~~320.4 Threats to compliance with the fundamental principles, for example, self-interest or intimidation threats to integrity, objectivity or professional competence and due care, are created where a professional accountant in business is pressured (either externally or by the possibility of personal gain) to prepare or report information in a misleading way or to become associated with misleading information through the actions of others.~~

320.5 In cases where the professional accountant relies on the work of others, the professional accountant shall take reasonable steps to be satisfied that such work enables the professional accountant to fulfill the obligations set out in paragraph 320.2.

- 320.6 Where a professional accountant has determined that information with which the professional accountant is associated is misleading, the professional accountant shall take steps to resolve the matter. Such steps may include consulting the employing organization's policies and procedures (for example, an ethics policy) regarding how such matters should be addressed internally, and discussing concerns that the information is misleading with the professional accountant's supervisor and/or the appropriate level(s) of management within the professional accountant's organization or those charged with governance.
- 320.7 If, after taking such steps, the professional accountant determines that corrective action has not been taken and the information is still misleading, the professional accountant may consider one or more of the following:
- Consulting legal counsel regarding the professional accountant's and the employing organization's responsibilities.
  - Consulting with a relevant professional body.
  - Determining whether any requirements exist to communicate to third parties, including users of the information, regulatory authorities or the employing organization's external accountant.
- ~~320.78~~ ~~Where it is not possible to reduce the threat to an acceptable level, a~~ If after exhausting all possible options, the professional accountant determines that the information is still misleading, ~~the professional accountant in business shall refuse to be or to remain associated with the information. the professional accountant determines is misleading. A professional accountant in business may have been unknowingly associated with misleading information. Upon becoming aware of this, the professional accountant in business shall take steps to be disassociated from that information. In determining whether there is a requirement to report the circumstances outside the organization, the professional accountant in business may consider obtaining legal advice. In addition, t~~The professional accountant ~~may~~ shall also consider ~~whether to resigning from the employing organization.~~
- 320.9 The professional accountant is encouraged to document the facts, the accounting principles or other relevant professional standards involved, and the communications and parties with whom these matters were discussed.
- 320.105 ~~The significance of such threats will depend on factors such as the source of the pressure and the corporate culture within the employing organization. The professional accountant in business shall be alert to the principle of integrity, which imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Where the threats to compliance with the fundamental principles relating to the presentation of information arise from financial interests, compensation and incentives arrangements linked to financial reporting and decision making, the guidance in s~~Section 340 is relevant.
- 320.11 ~~Where threats to compliance with the fundamental principles relating to the presentation of information arise from pressure, the guidance in Section 370 is relevant.~~
- ~~320.6~~ ~~The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards include consultation with superiors within the employing organization, the audit committee or those charged with governance of the organization, or with a relevant professional body.~~

~~320.7 Where it is not possible to reduce the threat to an acceptable level, a professional accountant in business shall refuse to be or remain associated with information the professional accountant determines is misleading. A professional accountant in business may have been unknowingly associated with misleading information. Upon becoming aware of this, the professional accountant in business shall take steps to be disassociated from that information. In determining whether there is a requirement to report the circumstances outside the organization, the professional accountant in business may consider obtaining legal advice. In addition, the professional accountant may consider whether to resign.~~

## **PROPOSED SECTION 370**

### **Pressure to Breach the Fundamental Principles**

~~370.1 A professional accountant in business may face pressure that could create threats, for example, intimidation threats, to compliance with the fundamental principles when undertaking a professional activity. Pressure may be explicit or implicit. Pressure may come from within the organization (for example, from a colleague or superior), from an external individual or organization such as a vendor, customer or lender, or from meeting internal or external targets and expectations. The professional accountant shall not allow such pressure to result in a breach of the fundamental principles.~~

~~370.2 The professional accountant shall not place pressure on others that the professional accountant knows or has reason to believe would result in a breach of the fundamental principles.~~

~~370.3 This section addresses pressures that could result in a professional accountant taking actions that breach the fundamental principles. It does not address routine pressures encountered in the workplace such as pressure to meet a reporting deadline.~~

~~370.4 Examples of pressure that could result in a breach of the fundamental principles include:~~

~~Pressure related to conflicts of interest~~

- ~~• Pressure from a family member bidding to act as a vendor to the professional accountant's employing organization to select them over another prospective vendor.~~

~~Pressure to influence presentation of information~~

- ~~• Pressure to report misleading financial results to meet investor, analyst or lender expectations.~~
- ~~• Pressure to manipulate performance indicators from superiors, colleagues or others, for example, those who may benefit from participation in compensation or incentive arrangements.~~
- ~~• Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.~~
- ~~• Pressure from colleagues to misstate income, expenditure or rates of return to bias decision-making on capital projects and acquisitions.~~
- ~~• Pressure from superiors to process expenditures that are not legitimate business expenses.~~

~~Pressure to act without sufficient expertise or due care~~

- Pressure from superiors to inappropriately reduce the extent of work performed in order to reduce costs.
- Pressure from superiors to perform a task without sufficient skills or training or without sufficient time.

Pressure related to financial interests

- Implicit or explicit pressure from superiors or colleagues to present information that has been altered in order to increase their compensation.

Pressure related to inducements

- Pressure from others, either internal or external to the employing organization, to offer inducements to influence the judgment or decision-making process of an individual or organization.
- Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

Pressure related to non-compliance with laws and regulations

- Pressure to engage in activities or transactions that may violate laws or regulations.

370.5 The professional accountant may wish to consider the following when faced with pressure that could result in a breach of the fundamental principles:

- The application of policies and procedures, if any, that the employing organization has established, such as an ethics policy that addresses pressure.
- The corporate culture and leadership of the employing organization, including the extent to which it emphasizes the importance of ethical behavior and the expectation that employees will act in an ethical manner.
- The application of the relevant laws and regulations to the circumstances.
- Discussion with the person who is exerting the pressure to clarify their intent and to determine the nature and significance of the pressure.

Being alert to the fundamental principle of confidentiality, the professional accountant may also wish to consult with:

- Where appropriate, a colleague or superior, or another professional accountant.
- Relevant professional bodies, regulators or industry associations.

370.6 If the professional accountant has determined that the pressure would result in a breach of the fundamental principles, the professional accountant may wish to consider one or more of the following actions:

- Engage in constructive challenge with the individual exerting the pressure.
- Request restructuring or segregation of certain responsibilities and duties so that the professional accountant is no longer involved with the individual or entity exerting the pressure.

- Escalate the matter within the entity, for example, with higher levels of management, internal or external auditors, or those charged with governance, including independent directors and, when appropriate, explaining any consequential risks to the organization.
- Disclose the matter in accordance with any established mechanism such as through the employing organization's confidential ethics hotline.
- Consult with legal counsel.

370.7 If the professional accountant determines that the pressure cannot be alleviated or eliminated, the professional accountant shall decline to undertake or discontinue the professional activity that would result in a breach of the fundamental principles. The professional accountant shall also consider resigning from the employing organization.

370.8 The professional accountant is encouraged to document the facts, the communications and the parties with whom these matters were discussed.

370.9 Where pressure to breach the fundamental principles relates to:

- A conflict of interest, the guidance in Section 310 is relevant.
- Presenting information, the guidance in Section 320 is relevant.
- Acting without sufficient expertise or due care, the guidance in Section 330 is relevant.
- A financial interest, the guidance in Section 340 is relevant.
- Inducements, the guidance in Section 350 is relevant.



## RELATED AND CONFORMING CHANGES TO SECTIONS 300, 310, 330 AND 340 (MARK-UP FROM 2014 CODE)

### SECTION 300

#### Introduction

- 300.1 This ~~Pp~~part of the Code describes how the conceptual framework contained in Part A applies in certain situations to professional accountants in business. This ~~Pp~~part does not describe all of the circumstances and relationships that could be encountered by a professional accountant in business that create or may create threats to compliance with the fundamental principles. Therefore, the professional accountant in business is encouraged to be alert for such circumstances and relationships.
- 300.2 Investors, creditors, employers and other sectors of the business community, as well as governments and the public at large, all may rely on the work of professional accountants in business. Professional accountants in business may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organizations and third parties may rely on. They may also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 300.3 A professional accountant in business may be a salaried employee, a partner, director (whether executive or non-executive), an owner manager, or a volunteer~~or another working~~. A professional accountant may work for one or more employing organizations. The legal form of the relationship with the employing organization, if any, has no bearing on the ethical responsibilities incumbent on the professional accountant in business.
- 300.4 A professional accountant in business has a responsibility to further the legitimate aims of the accountant's employing organization. This Code does not seek to hinder a professional accountant in business from properly fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles may be compromised.
- 300.5 A professional accountant in business may hold a senior position within an organization. The more senior the position of the professional accountant, the greater will be the ability and opportunity to influence ~~events, practices policies and attitudes~~ decision-making. A professional accountant ~~in business~~ is expected, ~~therefore~~, to encourage an ethics-based culture in an employing organization ~~that emphasizes the importance that~~. To the extent that the professional accountant is in a position to do so, the professional accountant shall take reasonable steps to identify, implement and oversee safeguards in the work environment to encourage or promote an ethics-based culture, including policies and procedures to prevent non-compliance with laws and regulations. Ethics policies and whistle-blowing procedures that have been communicated to all employees may be useful to achieve the objective of establishing and maintaining an ethics-based culture. Such policies and procedures help to encourage ethical behavior and increase the likelihood of senior management ~~places on ethical behavior~~ being alerted to a problem in time to prevent serious harm.
- 300.6 A professional accountant in business shall not knowingly engage in any business, occupation, or activity that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude that it impairs or might impair the professional accountant's integrity, or objectivity, or the good

reputation of the profession, and as a result would be incompatible with the fundamental principles.

300.7 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. Threats fall into one or more of the following categories:

- (a) Self-interest;
- (b) Self-review;
- (c) Advocacy;
- (d) Familiarity; and
- (e) Intimidation.

These threats are discussed further in Part A of this Code.

300.8 Examples of circumstances that may create self-interest threats for a professional accountant in business include:

- Holding a financial interest in, or receiving a loan or guarantee from the employing organization.
- Participating in incentive compensation arrangements offered by the employing organization.
- Inappropriate personal use of corporate assets.
- Concern over employment security.
- Commercial pressure from outside the employing organization.

300.9 An example of a circumstance that creates a self-review threat for a professional accountant in business is determining the appropriate accounting treatment for a business combination after performing the feasibility study that supported the acquisition decision.

300.10 When furthering the legitimate goals and objectives of their employing organizations, professional accountants in business may promote the organization's position, provided any statements made are neither false nor misleading. Such actions generally would not create an advocacy threat.

300.11 Examples of circumstances that may create familiarity threats for a professional accountant in business include:

- Being responsible for the employing organization's financial reporting when an immediate or close family member employed by the entity makes decisions that affect the entity's financial reporting.
- Long association with business contacts influencing business decisions.
- Accepting a gift or preferential treatment, unless the value is trivial and inconsequential.

300.12 Examples of circumstances that may create intimidation threats for a professional accountant in business include:

- Threat of dismissal or replacement of the professional accountant in business or a close or immediate family member over a disagreement about the application of an accounting principle or the way in which financial information is to be ~~reported~~ presented.

- A dominant personality attempting to influence the decision making process, for example with regard to the awarding of contracts or the application of an accounting principle.

300.13 Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:

- (a) Safeguards created by the profession, legislation or regulation; and
- (b) Safeguards in the work environment.

Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 100.14 of Part A of this Code.

300.14 Safeguards in the work environment include:

- The employing organization's systems of corporate oversight or other oversight structures.
- The employing organization's ethics and conduct programs.
- Recruitment procedures in the employing organization emphasizing the importance of employing high caliber competent staff.
- Strong internal controls.
- Appropriate disciplinary processes.
- Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.
- Policies and procedures to implement and monitor the quality of employee performance.
- Timely communication of the employing organization's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.
- Policies and procedures to empower and encourage employees to communicate to senior levels within the employing organization any ethical issues that concern them without fear of retribution.
- Consultation with another appropriate professional accountant.

300.15 ~~In circumstances where~~ If a professional accountant in business believes that unethical behavior or actions by others will continue to occur within the ~~employing organization work environment~~, the professional accountant ~~in business~~ may consider first reporting such matters in accordance with the employing organization's established ethics policies and whistle-blowing procedures. Where such policies and procedures do not exist, the professional accountant may consider consulting with management or those charged with governance or a relevant professional body, or obtaining legal advice. ~~In these extreme situations~~ circumstances where all available actions and safeguards have been exhausted and it is not possible to reduce the threat to an acceptable level, a professional accountant ~~in business may conclude that it is appropriate to~~ shall consider resigning from the employing organization.



## SECTION 310

### Conflicts of Interest

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310.11 A professional accountant in business may encounter other threats to compliance with the fundamental principles. This may occur, for example, when preparing or reporting financial information as a result of undue pressure from others within the employing organization or financial, business or personal relationships that close or immediate family members of the professional accountant have with the employing organization. Guidance on managing such threats is covered by Sections 320, ~~and 340~~ and 370 of the Code.

## SECTION 330

### Acting with Sufficient Expertise

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330.4 When threats cannot be eliminated or reduced to an acceptable level, professional accountants in business shall determine whether to refuse to perform the duties in question. If the professional accountant in business determines that refusal is appropriate, the reasons for doing so shall be clearly communicated.

330.5 In cases where a professional accountant in business is pressured to act in a manner that would lead to a breach of the fundamental principle of professional competence and due care, Section 370 of this Code provides guidance.

## SECTION 340

### Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making

340.1 Professional accountants in business may have financial interests, including those arising from compensation or incentive arrangements, or may know of financial interests of immediate or close family members, that, in certain circumstances, may create threats to compliance with the fundamental principles. For example, self-interest or familiarity threats to objectivity or confidentiality may be created through the existence of the motive and opportunity to manipulate price-sensitive information in order to gain financially. Examples of circumstances that may create ~~self-interest~~ threats include situations where the professional accountant in business or an immediate or close family member:

- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest could be directly affected by decisions made by the professional accountant in business.
- Is eligible for a profit-related bonus and the value of that bonus could be directly affected by decisions made by the professional accountant in business.
- Holds, directly or indirectly, deferred bonus share entitlements or share options in the employing organization, the value of which could be directly affected by decisions made by the professional accountant in business.

- Otherwise participates in compensation arrangements which provide incentives to achieve performance targets or to support efforts to maximize the value of the employing organization's shares, for example, through participation in long-term incentive plans which are linked to certain performance conditions being met.

~~340.2 Self interest threats arising from compensation or incentive arrangements may be further compounded by pressure from superiors or peers in the employing organization who participate in the same arrangements. For example, such arrangements often entitle participants to be awarded shares in the employing organization at little or no cost to the employee provided certain performance criteria are met. In some cases, the value of the shares awarded may be significantly greater than the base salary of the professional accountant in business.~~

340.23 A professional accountant in business shall not manipulate information or use confidential information for personal gain or for the financial gain of others. ~~The more senior the position that the professional accountant in business holds, the greater the ability and opportunity to influence financial reporting and decision making and the greater the pressure there might be from superiors and peers to manipulate information. In such situations, the professional accountant in business shall be particularly alert to the principle of integrity, which imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships.~~

340.34 The significance of any threat created by financial interests, shall be evaluated and safeguards applied, when necessary, to eliminate the threat or reduce it to an acceptable level. In evaluating the significance of any threat, and, when necessary, determining the appropriate safeguards to be applied, a professional accountant in business shall evaluate the nature of the interest. This includes evaluating the significance of the interest. What constitutes a significant interest will depend on personal circumstances. Examples of such safeguards include:

- Policies and procedures for a committee independent of management to determine the level or form of remuneration of senior management.
- Disclosure of all relevant interests, and of any plans to exercise entitlements or trade in relevant shares, to those charged with the governance of the employing organization, in accordance with any internal policies.
- Consultation, where appropriate, with superiors within the employing organization.
- Consultation, where appropriate, with those charged with the governance of the employing organization or relevant professional bodies.
- Internal and external audit procedures.
- Up-to-date education on ethical issues and on the legal restrictions and other regulations around potential insider trading.

~~340.42 Self interest tThreats arising from compensation or incentive arrangements may be further compounded by explicit or implicit pressure from superiors or peers—colleagues in the employing organization—who participate in the same arrangements. For example, such arrangements often entitle participants to be awarded shares in the employing organization at little or no cost to the employee provided certain performance criteria are met. In some cases, the value of the shares awarded may be significantly greater than the base salary of the professional accountant in business.—Section 370 addresses pressure that could lead a professional accountant to breach the fundamental principles.~~



## **PROPOSED REVISED SECTION 320 AND PROPOSED NEW SECTION 370 (CLEAN)**

### **SECTION 320**

#### **Presentation of Information**

320.1 Professional accountants in business are involved in the preparation and presentation of information to stakeholders both inside and outside the employing organization. Such stakeholders include management, those charged with governance, investors, regulators, lenders and other creditors.

This information may assist stakeholders in understanding and evaluating aspects of the organization's state of affairs and in making decisions concerning the organization. Such information includes financial and non-financial information that may be made public or used for internal purposes.

Examples include:

- Operating and performance reports.
- Decision support analyses.
- Budgets and forecasts.
- Information provided to the internal and external auditors.
- Risk analyses.
- General and special purpose financial statements.
- Tax returns.
- Reports filed with regulators for legal and compliance purposes.

320.2 A professional accountant who is responsible for recording, maintaining, preparing or presenting information shall do so in a manner that is fair and honest, in accordance with the fundamental principles. This includes:

- Preparing or presenting information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- Not omitting information with the intention of rendering the information misleading; and
- Presenting the information in accordance with a relevant reporting framework, where applicable.

This responsibility involves taking reasonable steps to:

- Represent the facts accurately and completely in all material respects;
- Describe clearly the true nature of business transactions or activities; and
- Classify and record information in a timely and proper manner.

320.3 Preparing or presenting financial information often involves judgment and discretion. Preparing or presenting such information fairly and honestly requires the professional accountant not to exercise such discretion in a manner that is intended to mislead, including when:



- Determining estimates. For example, over- or under-accruing warranty expenses in order to manipulate income.
- Selecting a particular accounting method among two or more alternatives permitted under the applicable financial reporting framework. For example, selection of one method from among alternative revenue recognition methods in order to manipulate income.
- Determining the timing of transactions. For example, timing revenue transactions in order to manipulate income.
- Determining the structuring of transactions. For example, structuring financing transactions in order to manipulate the statement of financial position or the cash flow statement.
- Determining disclosures. For example, omitting or obscuring information so that materially different items are not distinguished in order to mislead.

320.4 An important factor for the professional accountant to consider is having regard to the purpose for which the information is to be used, the context in which it is provided and the audience to whom it is addressed. For example, preparing or presenting financial information such as pro forma reports, budgets or forecasts would require the professional accountant to include relevant estimates, approximations and assumptions that are necessary to enable those who may rely on such information to form their own judgments.

320.5 In cases where the professional accountant relies on the work of others, the professional accountant shall take reasonable steps to be satisfied that such work enables the professional accountant to fulfill the obligations set out in paragraph 320.2.

320.6 Where a professional accountant has determined that information with which the professional accountant is associated is misleading, the professional accountant shall take steps to resolve the matter. Such steps may include consulting the employing organization's policies and procedures (for example, an ethics policy) regarding how such matters should be addressed internally, and discussing concerns that the information is misleading with the professional accountant's supervisor and/or the appropriate level(s) of management within the professional accountant's organization or those charged with governance.

320.7 If, after taking such steps, the professional accountant determines that corrective action has not been taken and the information is still misleading, the professional accountant may consider one or more of the following:

- Consulting legal counsel regarding the professional accountant's and the employing organization's responsibilities.
- Consulting with a relevant professional body.
- Determining whether any requirements exist to communicate to third parties, including users of the information, regulatory authorities or the employing organization's external accountant.

320.8 If after exhausting all possible options, the professional accountant determines that the information is still misleading, the professional accountant shall refuse to be or to remain associated with the information. The professional accountant shall also consider resigning from the employing organization.

- 320.9 The professional accountant is encouraged to document the facts, the accounting principles or other relevant professional standards involved, and the communications and parties with whom these matters were discussed.
- 320.10 Where threats to compliance with the fundamental principles relating to the presentation of information arise from financial interests, compensation and incentives linked to financial reporting and decision making, the guidance in Section 340 is relevant.
- 320.11 Where threats to compliance with the fundamental principles relating to the presentation of information arise from pressure, the guidance in Section 370 is relevant.

## **PROPOSED SECTION 370**

### **Pressure to Breach the Fundamental Principles**

- 370.1 A professional accountant in business may face pressure that could create threats, for example, intimidation threats, to compliance with the fundamental principles when undertaking a professional activity. Pressure may be explicit or implicit. Pressure may come from within the organization (for example, from a colleague or superior), from an external individual or organization such as a vendor, customer or lender, or from meeting internal or external targets and expectations. The professional accountant shall not allow such pressure to result in a breach of the fundamental principles.
- 370.2 The professional accountant shall not place pressure on others that the professional accountant knows or has reason to believe would result in a breach of the fundamental principles.
- 370.3 This section addresses pressures that could result in a professional accountant taking actions that breach the fundamental principles. It does not address routine pressures encountered in the workplace such as pressure to meet a reporting deadline.
- 370.4 Examples of pressure that could result in a breach of the fundamental principles include:
- Pressure related to conflicts of interest
- Pressure from a family member bidding to act as a vendor to the professional accountant's employing organization to select them over another prospective vendor.
- Pressure to influence presentation of information
- Pressure to report misleading financial results to meet investor, analyst or lender expectations.
  - Pressure to manipulate performance indicators from superiors, colleagues or others, for example, those who may benefit from participation in compensation or incentive arrangements.
  - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
  - Pressure from colleagues to misstate income, expenditure or rates of return to bias decision-making on capital projects and acquisitions.
  - Pressure from superiors to process expenditures that are not legitimate business expenses.

Pressure to act without sufficient expertise or due care

- Pressure from superiors to inappropriately reduce the extent of work performed in order to reduce costs.
- Pressure from superiors to perform a task without sufficient skills or training or without sufficient time.

Pressure related to financial interests

- Implicit or explicit pressure from superiors or colleagues to present information that has been altered in order to increase their compensation.

Pressure related to inducements

- Pressure from others, either internal or external to the employing organization, to offer inducements to influence the judgment or decision-making process of an individual or organization.
- Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

Pressure related to non-compliance with laws and regulations

- Pressure to engage in activities or transactions that may violate laws or regulations.

370.5 The professional accountant may wish to consider the following when faced with pressure that could result in a breach of the fundamental principles:

- The application of policies and procedures, if any, that the employing organization has established, such as an ethics policy that addresses pressure.
- The corporate culture and leadership of the employing organization, including the extent to which it emphasizes the importance of ethical behavior and the expectation that employees will act in an ethical manner.
- The application of the relevant laws and regulations to the circumstances.
- Discussion with the person who is exerting the pressure to clarify their intent and to determine the nature and significance of the pressure.

Being alert to the fundamental principle of confidentiality, the professional accountant may also wish to consult with:

- Where appropriate, a colleague or superior, or another professional accountant.
- Relevant professional bodies, regulators or industry associations.

370.6 If the professional accountant has determined that the pressure would result in a breach of the fundamental principles, the professional accountant may wish to consider one or more of the following actions:

- Engage in constructive challenge with the individual exerting the pressure.
- Request restructuring or segregation of certain responsibilities and duties so that the professional accountant is no longer involved with the individual or entity exerting the pressure.

- Escalate the matter within the entity, for example, with higher levels of management, internal or external auditors, or those charged with governance, including independent directors and, when appropriate, explaining any consequential risks to the organization.
- Disclose the matter in accordance with any established mechanism such as through the employing organization's confidential ethics hotline.
- Consult with legal counsel.

370.7 If the professional accountant determines that the pressure cannot be alleviated or eliminated, the professional accountant shall decline to undertake or discontinue the professional activity that would result in a breach of the fundamental principles. The professional accountant shall also consider resigning from the employing organization.

370.8 The professional accountant is encouraged to document the facts, the communications and the parties with whom these matters were discussed.

370.9 Where pressure to breach the fundamental principles relates to:

- A conflict of interest, the guidance in Section 310 is relevant.
- Presenting information, the guidance in Section 320 is relevant.
- Acting without sufficient expertise or due care, the guidance in Section 330 is relevant.
- A financial interest, the guidance in Section 340 is relevant.
- Inducements, the guidance in Section 350 is relevant.

## **RELATED AND CONFORMING CHANGES TO SECTIONS 300, 310, 330 AND 340 (CLEAN)**

### **SECTION 300**

#### **Introduction**

- 300.1 This part of the Code describes how the conceptual framework contained in Part A applies in certain situations to professional accountants in business. This part does not describe all of the circumstances and relationships that could be encountered by a professional accountant in business that create or may create threats to compliance with the fundamental principles. Therefore, the professional accountant in business is encouraged to be alert for such circumstances and relationships.
- 300.2 Investors, creditors, employers and other sectors of the business community, as well as governments and the public at large, all may rely on the work of professional accountants in business. Professional accountants in business may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organizations and third parties may rely on. They may also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 300.3 A professional accountant in business may be a salaried employee, a partner, director (whether executive or non-executive), an owner manager or a volunteer. A professional accountant may work for one or more employing organizations. The legal form of the relationship with the employing organization, if any, has no bearing on the ethical responsibilities incumbent on the professional accountant in business.
- 300.4 A professional accountant in business has a responsibility to further the legitimate aims of the accountant's employing organization. This Code does not seek to hinder a professional accountant in business from properly fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles may be compromised.
- 300.5 A professional accountant in business may hold a senior position within an organization. The more senior the position of the professional accountant, the greater will be the ability and opportunity to influence policies and decision-making. A professional accountant is expected to encourage an ethics-based culture in an employing organization. To the extent that the professional accountant is in a position to do so, the professional accountant shall take reasonable steps to identify, implement and oversee safeguards in the work environment to encourage or promote an ethics-based culture, including policies and procedures to prevent non-compliance with laws and regulations. Ethics policies and whistle-blowing procedures that have been communicated to all employees may be useful to achieve the objective of establishing and maintaining an ethics-based culture. Such policies and procedures help to encourage ethical behavior and increase the likelihood of senior management being alerted to a problem in time to prevent serious harm.
- 300.6 A professional accountant in business shall not knowingly engage in any business, occupation, or activity that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude that it impairs or might impair the professional accountant's integrity or objectivity, or the good

reputation of the profession, and as a result would be incompatible with the fundamental principles.

300.7 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. Threats fall into one or more of the following categories:

- (f) Self-interest;
- (g) Self-review;
- (h) Advocacy;
- (i) Familiarity; and
- (j) Intimidation.

These threats are discussed further in Part A of this Code.

300.8 Examples of circumstances that may create self-interest threats for a professional accountant in business include:

- Holding a financial interest in, or receiving a loan or guarantee from the employing organization.
- Participating in incentive compensation arrangements offered by the employing organization.
- Inappropriate personal use of corporate assets.
- Concern over employment security.
- Commercial pressure from outside the employing organization.

300.9 An example of a circumstance that creates a self-review threat for a professional accountant in business is determining the appropriate accounting treatment for a business combination after performing the feasibility study that supported the acquisition decision.

300.10 When furthering the legitimate goals and objectives of their employing organizations, professional accountants in business may promote the organization's position, provided any statements made are neither false nor misleading. Such actions generally would not create an advocacy threat.

300.11 Examples of circumstances that may create familiarity threats for a professional accountant in business include:

- Being responsible for the employing organization's financial reporting when an immediate or close family member employed by the entity makes decisions that affect the entity's financial reporting.
- Long association with business contacts influencing business decisions.
- Accepting a gift or preferential treatment, unless the value is trivial and inconsequential.

300.12 Examples of circumstances that may create intimidation threats for a professional accountant in business include:

- Threat of dismissal or replacement of the professional accountant in business or a close or immediate family member over a disagreement about the application of an accounting principle or the way in which financial information is to be presented.

- A dominant personality attempting to influence the decision making process, for example with regard to the awarding of contracts or the application of an accounting principle.

300.13 Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:

- (a) Safeguards created by the profession, legislation or regulation; and
- (b) Safeguards in the work environment.

Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 100.14 of Part A of this Code.

300.14 Safeguards in the work environment include:

- The employing organization's systems of corporate oversight or other oversight structures.
- The employing organization's ethics and conduct programs.
- Recruitment procedures in the employing organization emphasizing the importance of employing high caliber competent staff.
- Strong internal controls.
- Appropriate disciplinary processes.
- Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.
- Policies and procedures to implement and monitor the quality of employee performance.
- Timely communication of the employing organization's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.
- Policies and procedures to empower and encourage employees to communicate to senior levels within the employing organization any ethical issues that concern them without fear of retribution.
- Consultation with another appropriate professional accountant.

300.15 If a professional accountant in business believes that unethical behavior or actions by others will continue to occur within the work environment, the professional accountant may consider first reporting such matters in accordance with the employing organization's established ethics policies and whistle-blowing procedures. Where such policies and procedures do not exist, the professional accountant may consider consulting with management or those charged with governance or a relevant professional body, or obtaining legal advice. In circumstances where all available actions and safeguards have been exhausted and it is not possible to reduce the threat to an acceptable level, a professional accountant shall consider resigning from the employing organization.

## **SECTION 310**

### **Conflicts of Interest**

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310.11 A professional accountant in business may encounter other threats to compliance with the fundamental principles. This may occur, for example, when preparing or reporting financial information as a result of undue pressure from others within the employing organization or financial, business or personal relationships that close or immediate family members of the professional accountant have with the employing organization. Guidance on managing such threats is covered by Sections 320, 340 and 370 of the Code.

## **SECTION 330**

### **Acting with Sufficient Expertise**

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330.4 When threats cannot be eliminated or reduced to an acceptable level, professional accountants in business shall determine whether to refuse to perform the duties in question. If the professional accountant in business determines that refusal is appropriate, the reasons for doing so shall be clearly communicated.

330.5 In cases where a professional accountant in business is pressured to act in a manner that would lead to a breach of the fundamental principle of professional competence and due care, Section 370 of this Code provides guidance.

## **SECTION 340**

### **Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making**

340.1 Professional accountants in business may have financial interests, including those arising from compensation or incentive arrangements, or may know of financial interests of immediate or close family members, that, in certain circumstances, may create threats to compliance with the fundamental principles. For example, self-interest or familiarity threats to objectivity or confidentiality may be created through the existence of the motive and opportunity to manipulate price-sensitive information in order to gain financially. Examples of circumstances that may create threats include situations where the professional accountant in business or an immediate or close family member:

- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest could be directly affected by decisions made by the professional accountant in business.
- Is eligible for a profit-related bonus and the value of that bonus could be directly affected by decisions made by the professional accountant in business.
- Holds, directly or indirectly, deferred bonus share entitlements or share options in the employing organization, the value of which could be directly affected by decisions made by the professional accountant in business.



- Otherwise participates in compensation arrangements which provide incentives to achieve performance targets or to support efforts to maximize the value of the employing organization's shares, for example, through participation in long-term incentive plans which are linked to certain performance conditions being met.
- 340.2 A professional accountant in business shall not manipulate information or use confidential information for personal gain or for the financial gain of others.
- 340.3 The significance of any threat created by financial interests, shall be evaluated and safeguards applied, when necessary, to eliminate the threat or reduce it to an acceptable level. In evaluating the significance of any threat, and, when necessary, determining the appropriate safeguards to be applied, a professional accountant in business shall evaluate the nature of the interest. This includes evaluating the significance of the interest. What constitutes a significant interest will depend on personal circumstances. Examples of such safeguards include:
- Policies and procedures for a committee independent of management to determine the level or form of remuneration of senior management.
  - Disclosure of all relevant interests, and of any plans to exercise entitlements or trade in relevant shares, to those charged with the governance of the employing organization, in accordance with any internal policies.
  - Consultation, where appropriate, with superiors within the employing organization.
  - Consultation, where appropriate, with those charged with the governance of the employing organization or relevant professional bodies.
  - Internal and external audit procedures.
  - Up-to-date education on ethical issues and on the legal restrictions and other regulations around potential insider trading.
- 340.4 Threats arising from compensation or incentive arrangements may be compounded by explicit or implicit pressure from superiors or colleagues in the employing organization. Section 370 addresses pressure that could lead a professional accountant to breach the fundamental principles.

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