

Meeting: IESBA CAG
Meeting Location: New York
Meeting Date: September 9-10, 2014

Agenda Item

G

Review of Part C of the Code

Objectives of Agenda Item

1. To obtain CAG Representatives':
 - (a) Views on a draft Exposure Draft of proposed changes to Part C of the Code; and
 - (b) Initial views on Phase 2 of the project addressing facilitation payments and bribes (Inducements).

Project Status and Timeline

2. At its meeting in March 2013, the IESBA approved the project to review Part C of the Code, including that priority attention be given to the following topic areas:
 - Pressure by superiors and others to engage in unethical or illegal acts (Pressure);
 - The responsibility of professional accountants in business (PAIBs) to produce financial reports that are faithful representations of the economics of transactions, and associated matters (Faithful Representation); and
 - Facilitation payments and bribes (Inducements).
3. This project is divided into two phases:
 - Phase 1 reviews Sections 300,¹ 310², 320,³ 330⁴ and 340⁵ of the Code and, in particular, addresses the topics of Pressure and Faithful Representation.
 - Phase 2 will address Section 350,⁶ which is related to the topic of Inducements.
4. The CAG considered Section 320 dealing with issues related to the preparation and presentation of information at its meeting in March 2014, and proposed Section 370 dealing with issues related to pressure by superiors and others to breach the fundamental principles at its meeting in September 2013.

¹ Section 300, *Introduction*

² Section 310, *Conflicts of Interest*

³ Section 320, *Preparation and Reporting of Information*

⁴ Section 330, *Acting with Sufficient Expertise*

⁵ Section 340, *Financial Interests*

⁶ Section 350, *Inducements*

5. At its meeting in July 2014, the IESBA considered revised drafts of Sections 320 and 370, with the expectation that the Task Force would present an exposure draft of Phase 1 for approval at the October 2014 IESBA meeting.
6. The Task Force believes that the changes made reflect the comments made at the July 2014 IESBA meeting, and will recommend that the text presented as Agenda Item G-1 be considered for approval as an exposure draft of Phase 1 at the October 2014 IESBA meeting.

Matters for CAG Consideration

Section 300 – Introduction

7. The Task Force believes that the creation of an ethics-based culture in paragraph 300.5 is important, and that the extant paragraph could be usefully expanded by providing further guidance on this matter, as previously discussed by the Board when considering Section 370 (see paragraph 300.5).

Section 310 – Conflicts of Interest

8. The project proposal included a review of those parts of Section 310 which were deleted in the Conflicts of Interest project but which remain relevant to “pressure.” These have been incorporated into Sections 320 and 370, as appropriate. A minor conforming change is proposed for the revised Section 310. The Section became effective on July 1, 2014.

Section 320 – Presentation of Information

9. Below are extracts from the draft minutes of the March 2014 CAG meeting,⁷ and an indication of how the project Task Force and/or IESBA has responded to CAG Representatives’ comments.

Matters Raised	Task Force/IESBA Response
<p>Mr. Dalkin did not doubt that the issue of misuse or abuse of discretion under the applicable financial reporting framework exists but thought it is a financial reporting or auditing issue, rather than a matter for the Code. Mr. Gaa emphasized that the issue in Section 320 is not about violating generally accepted accounting principles (GAAP).</p>	<p>Point noted. The proposed wording in Section 320 addresses the abuse of discretion in order to mislead, which is an ethical matter. As stated in paragraph 100.3 of the Code, Part C describes how the conceptual framework, including the fundamental principles, applies in certain situations. Paragraph 320.6 elaborates on the fundamental principle of integrity.</p> <p>Financial reporting frameworks and financial reporting standards assume that preparers are acting in good faith and are attempting to provide high quality information. The only exception to this assumption is that financial reporting standard setters very occasionally incorporate “anti-abuse” provisions to prevent</p>

⁷ The draft March 2014 CAG minutes will be approved at the September 2014 IESBA CAG meeting.

Matters Raised	Task Force/IESBA Response
	the most obvious ways of abusing discretion. Section 320 addresses in part PAIBs who might not be acting in good faith when preparing financial information.
Mr. Waldron supported enhanced guidance for PAIBs, where it makes sense, because the issue starts with the business.	Support noted. Paragraph 320.3 has been added.
Mr. Hansen similarly supported enhanced guidance for PAIBs but questioned whether it is possible to mislead while complying with the applicable financial reporting framework. Mr. Gaa replied that it is possible to mislead without violating accounting standards.	Support noted. The IESBA is of the view that it is possible to mislead while complying with the applicable financial reporting framework. In this regard, auditing standards recognize the possibility of management bias being fraudulent in nature if there is intention to mislead. ⁸
Mr. Dalkin noted that he had difficulty identifying a situation where a PAIB would not violate GAAP but still abuse discretion and create misleading information.	Mr. Gaa replied that big bath accounting would be an example. He added that fraudulent reporting may involve the techniques in categories (d) (i.e. misuse or abuse of discretion under the applicable financial reporting framework while complying with it) and (e) (structuring real transactions with the intention to mislead). These two categories are elaborated on in Paragraph 320.3.
<p>Mr. Baumann encouraged strengthening the Code for PAIBs as preparers are at the frontlines in the provision of financial information that is true and fair. He noted that there is ongoing debate as to whether the “Repo 105” transaction in the recent Lehman Bros. case was fraudulent or not.</p> <p>With respect to the academic study that cited the views of CFOs surveyed that among the percentage of those entities they believe misuse discretion under GAAP, the magnitude of the misrepresentation would be around 10% of EPS, he felt that most courts would view this as fraud. He felt that the circumstances described in the</p>	Support and points noted.

⁸ International Standard on Auditing (ISA) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph A10

Matters Raised	Task Force/IESBA Response
<p>academic study are not what this project should be addressing. Mr. Gaa replied that the CFOs surveyed were not addressing their own company's practices for methodological reasons and were asked specifically about manipulation that does not violate a financial reporting framework.</p> <p>Mr. Baumann noted that he agreed with the views of the PCAOB's Standing Advisory Group about the need to study ways in which the auditor can better identify fraud. He added that management bias is a fraud indicator under both ISAs and PCAOB standards.</p>	
<p>Mr. Koktvedgaard suggested that it might be helpful to look for any motivations to misstate information that are omitted from paragraph 320.11. Mr. Gaa replied that the Task Force would do so, because it might reveal a gap in the current standards in Part C.</p>	<p>Point noted.</p> <p>Paragraph 320.11 cross referenced motivations in each related Section in Part C. This is now paragraph 320.10 and the cross reference is only to Section 340 rather than to each other section within Part C.</p>

10. At its meetings in April 2014 and July 2014, the Board reviewed proposed revisions to Section 320. The Board was generally supportive of the changes to Section 320 proposed by the Task Force, including enhanced guidance to help PAIBs better understand their responsibilities relating to the fundamental principles when facing:
- Misuse or abuse of discretion under the applicable reporting framework; and
 - Transaction-based misrepresentation.

MISUSE OF DISCRETION

11. At its April 2014 meeting, the Board tentatively agreed that the enhanced guidance on misuse of discretion in Section 320 should be kept at a high level and not be too detailed. The Task Force proposed a paragraph to the Board at its meeting in July 2014 that lists the following four ways in which discretion can be used to mislead, including one example of each (see paragraph 320.3):
- Determining estimates. For example over- or under-accruing for warranty expenses or changing amortization rates or useful lives or residual values of fixed assets in order to manipulate income.
 - Selecting a particular accounting method among two or more alternatives permitted under the applicable financial reporting framework. For example the selection of capitalization or depreciation methods, or 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 current 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.
12. In addressing these matters, the Task Force referred to academic literature that analyzes the quality of accounting.
13. The Board tentatively agreed that the categories and examples of abuse of discretion are useful, subject to:
- Adding a further category on disclosure.
 - Reconsidering the level of detail in the examples.
 - Adding judgment or professional judgment to discretion in the preamble to paragraph 320.3.
14. In response to the above comments, the Task Force has proposed to add a further category on disclosure, to reduce the detail in the examples and to replace discretion with “judgment and discretion”, in paragraph 320.3.

LEVEL OF PRESCRIPTION

15. The proposed wording presented to the CAG in March 2014 and the Board in April 2014 contained 14 “shall” statements, which made the proposed Section appear to be very prescriptive. The Task Force therefore reconsidered the section. The Task Force concluded, and the Board supported, that the requirement to prepare information in a fair and honest manner is the underlying principle and many of the other requirements should be drafted as guidance as to the meaning of “fair and honest.” Section 320 has been redrafted to effect this change, with a focus on providing additional guidance to PAIBs.

CHANGES FROM EXTANT CODE

16. The Task Force was asked to explain what significant differences from the extant Section 320 have been made. The Task Force reviewed a detailed comparison of the extant and proposed wording. The Task Force concluded that in addition to a significant number of clarifications and other refinements, the major changes are as follows:
- Extant Section 320 includes a requirement to prepare information fairly and honestly but provides no guidance on how to do this. Proposed paragraph 320.2 includes an overarching requirement to record, maintain, prepare or present information in a manner that is fair and honest. This creates a broad principle which is supported by six bullets that provide guidance as to how this overarching principle may be achieved.
 - Section 320 (effective July 1, 2014) includes three requirements in paragraphs 320.1-3 to maintain, prepare and present information. Paragraphs 320.4-7 (effective July 1, 2014) refer to threats and safeguards, but they address pressure to prepare misleading information.

Pressure is now addressed in proposed Section 370⁹ and is therefore not addressed in the proposed Section 320.

- Proposed paragraph 320.3 links the “fair and honest” requirement to the five ways in which discretion can be used to mislead while presenting the information in accordance with the applicable financial reporting framework.
- Paragraph 320.7 (effective July 1, 2014) requires a PAIB under certain circumstances to take steps to disassociate from misleading information, but provides no guidance as to how a PAIB can disassociate. Proposed Section 320 includes three paragraphs (320.6 - 320.8) providing a process by which a PAIB can attempt to resolve the matter and requiring the PAIB to disassociate from such information only after exhausting all possible options.
- Section 320 (effective July 1, 2014) does not address a benchmark to which the PAIB could refer when preparing information that is not subject to a reporting framework. Paragraph 320.4 provides guidance for the PAIB, when preparing or presenting information such as pro forma reports, budgets or forecasts, which explains that it may be necessary for the PAIB to disclose relevant information that may be necessary to enable those who may rely on such information to form their own judgments.
- Paragraph 310.2¹⁰ (effective until July 1, 2014, after which it was withdrawn) addresses pressure to engage in a variety of acts that breach the fundamental principles, including unethical or illegal earnings management, and lying or otherwise intentionally misleading others. The issues in this paragraph are addressed in Section 370 (pressure) and paragraphs 320.2 and 320.3 as well as paragraph 150.1 (unethical and illegal earnings management and intentionally misleading others) respectively. Actual or suspected illegal (fraudulent) earnings management will be covered by proposed Section 360.¹¹

DISASSOCIATION FROM MISLEADING INFORMATION

17. Consideration was given to whether it would be acceptable for a PAIB to account for a misleading structured transaction designed by others. Based on paragraph 110.2,¹² the Task Force is of the view that if a PAIB believes a transaction to be misleading, the PAIB would be associated with it whether the PAIB was part of the decision-making process or merely accounted for it. It is also possible that a PAIB who, for example, records the transaction might not be knowingly associated with the misleading information, in which case paragraphs 110.2 and 320.3 do not apply. One of the principal changes proposed by the Task Force is to provide practical guidance as to how a PAIB can disassociate from misleading information. Paragraphs 320.6 and 320.7 provided the steps a PAIB can take in this situation.
18. Two members of the Board thought that the guidance on dissociation from misleading information did not include sufficient guidance regarding steps that might be taken before dissociating oneself from misleading information. That is, the preceding paragraphs provide general guidance to the PAIB

⁹ Proposed Section 370, *Pressure to Breach the Fundamental Principles*

¹⁰ Extant Section 310, *Potential Conflicts*

¹¹ Proposed Section 360, *Responding to Non-compliance with Laws and Regulation (NOCLAR project)*

¹² Section 110, *Integrity*

on what to do and what not to do when presenting information and the section then takes a sudden leap into how to dissociate from misleading information. It was suggested that it may be helpful to explain the steps the PAIB should consider taking to “correct the problem” before moving into guidance on how to disassociate. The Task Force believes that the steps in the draft guidance are the appropriate steps but has proposed additional revisions to introduce proportionality into the guidance by adding a requirement to take steps to resolve the matter, and then, if the PAIB determines that the information is still misleading take further steps, and finally to refuse to remain associated with the misleading information after exhausting all possible options. The revised guidance is reflected in paragraphs 320.6 – 320.8.

19. Members also suggested introducing a reference to materiality, because otherwise the PAIB would be required to dissociate from all misleading information without regard to its materiality. The Task Force considered the reference to misleading statements in paragraph 110.2 which prohibits knowingly being associated with materially false or misleading statements. The Task Force believes that the adjective “materially” is implicit in “misleading”. That is, in order to be misleading an item of information must be capable of changing the recipient’s judgment or actions, and an intention to mislead is an intention to cause someone to change his or her judgments or actions. So, if it is not material, it is unlikely to mislead a user. Accordingly, the Task Force is of the view that it is not necessary to introduce the notion of materiality into the guidance.

DEGREE OF PRESCRIPTION

20. Consideration was given to whether a requirement based on the PAIB’s “intentions” is enforceable and whether this could lead to the PAIB being second guessed by lawyers and regulators. The Task Force has focused the proposed Section 320 on principles and guidance rather than on prescriptive requirements. In addition, it believes that the enforceability of principles is a basic tenet of the Code.

Matters for Consideration

1. Do CAG representatives agree that the five categories of misuse of discretion and related examples (320.3) provide useful guidance to PAIBs?
2. Do CAG representatives agree that the proposed approach to materiality and to the guidance relating to disassociation (paragraphs 320.6-320.8) is appropriate and helpful?
3. Do CAG representatives agree that materiality is implicit within the term “misleading”?
4. Is the degree of prescription in the proposed revised Section 320 appropriate?

Section 330 – Acting with Sufficient Expertise

21. Minor changes are proposed for Section 330.

Section 340 – Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making

22. There are no changes of substance proposed for Section 340, which was revised as part of the Conflicts of Interest project changes, which became effective on July 1, 2014. The proposed changes are conforming changes to proposed Section 370.

Section 350 – Inducements

23. Section 350 will be addressed in Phase 2 of this project.

Section 360 – Non-Compliance with Law and Regulations (NOCLAR)

24. Section 360 is being addressed within the NOCLAR project.

Section 370 – Pressure to Breach the Fundamental Principles

25. Below are extracts from the draft minutes of the September 2013 CAG meeting,¹³ and an indication of how the project Task Force or IESBA has responded to CAG Representatives' comments.

Matters Raised	Task Force/IESBA Response
Mr. Hansen was of the view that the guidance should not address “unethical and illegal activities” as an alternative to “undue or inappropriate pressure” because pressure can lead to “unethical or illegal activities” through a series of steps.	Point taken into account. Wording changed to “pressure that could create threats to compliance with the fundamental principles” as proposed by an IESBA member.
Mr. Ratnayake was of the view that the guidance should address pressure rather than activities.	Ditto.
Ms. Blomme was of the view that the proposed description of unethical activities is too broad to be helpful to PAIBs.	Ditto
Mr. James noted that the description of “illegal act” was no longer consistent with the description in “Responding to a Suspected Illegal Act”.	Ditto
Ms. Molyneux noted that although pressure is not unethical per se, it can lead to unacceptable results, and she provided an example of an entity where the CFO had left a suicide note citing pressure from the chairman as the cause of the suicide.	The Task Force agreed with the comment. No change to wording necessary.
Mr. Hansen and Mr. Baumann were of the view that the draft wording (370.10) indicated that the Code would accept different ethics standards in different environments, described as a “movable bar”. This impression was considered	Point accepted. The Task Force has deleted, and the Board supported, the deletion of the paragraph related to a diversity of ethical norms.

¹³ The minutes were approved at the March 2014 IESBA CAG meeting.

Review of Part C of the Code
IESBA CAG Meeting (September 2014)

Matters Raised	Task Force/IESBA Response
<p>unacceptable because the code should set a high standard, otherwise it would be discredited. Mr. Holmquist had read the draft wording to be an alert to the PAIB rather than a variable standard, but noted that the Task Force should examine the wording to try avoiding the suggestion of a movable bar. Mr. Finnell supported the concerns of Mr. Hansen and Mr. Baumann and advised the TF to revise the wording to avoid the suggestion of a movable bar.</p>	
<p>Mr. Grund was of the view that pressure is not restricted to high risk environments and cited the example of the suicide of the CFO of Zurich Insurance as a result of pressure.</p>	<p>Point noted. The Task Force has deleted, and the Board supported, the deletion of the paragraph related to a diversity of ethical norms.</p>
<p>Ms. Lang asked whether the guidance on pressure would also apply to professional accountants in public practice (PAPP). Mr. Jackson noted that the IESBA had requested that consideration of the application of Part C to PAPPs should be deferred until a later stage in the project. Mr. Jackson noted the tentative position of the IESBA during the meeting.</p>	<p>The description of the applicability of Part C to Professional Accountants in Public Practice will be considered by the Board as part of Phase 2 of this project.</p>
<p>Mr. Baumann questioned whether the elimination or reduction of threats to an acceptable level could apply in this Section. Mr. Jackson noted that the Task Force had developed the Section based on the Code's conceptual framework.</p>	<p>There was a diversity of views on the Board regarding whether or not proposed Section 370 should be drafted in the language of threats and safeguards. The Board agreed that Section 370 is consistent with the conceptual framework and should not be drafted in the language of threats and safeguards.</p>
<p>Mr. Baumann suggested that the expectation that a senior PAIB should encourage an ethics-based culture should be cross referenced to its source in Paragraph 300.5.</p>	<p>Point taken into account. The expanded guidance on encouraging an ethics-based culture was considered to be of general application and has been added to paragraph 300.5 and removed from Section 370.</p>

Matters Raised	Task Force/IESBA Response
Mr. Ratnayake suggested the safeguards (2nd bullet) should include explaining the risks to the organization, in addition to discussing the matter with the person who is exerting the pressure.	Point noted. The proposal now includes “engage in constructive challenge with the individual exerting the pressure”. Such a discussion may include a discussion of the risks to the organization.
Ms. Molyneux advised that the safeguards should make specific reference to independent directors as part of the escalation process.	Point accepted. This change is included in 370.6.
Mr. Peyret noted that insofar as the finance function is responsible for oversight and monitoring of internal control, having a solid reporting line from the PAIB to the regional controller, and a dotted reporting line to the CEO of the division can be a further safeguard.	Point accepted but no change made. The Task Force believes that the suggested actions include this suggestion and it is unnecessary to go into further detail.

LANGUAGE OF THREATS AND SAFEGUARDS

26. During the development of proposed Section 370,¹⁴ there was a diversity of views on the Board regarding whether or not the proposed Section should be drafted in the language of threats and safeguards. The Task Force reconsidered the merits of both sides of the argument and strongly believes that the public interest would be better served by proposed Section 370 not being drafted using the threats and safeguards terminology, but drafted in a way that would be most likely to provide practical guidance to a PAIB facing pressure to breach the fundamental principles.
27. At the July 2014 IESBA meeting, the overwhelming majority of the Board agreed that the Section should not be drafted using the language of threats and safeguards. However, the following comments were made:
- Section 370 is easier to read than Section 320, which may have implications for the readability of other parts of the Code.
 - It may be useful for the Board to have a comprehensive review of the use of threats and safeguards language in the Code.
 - The Task Force could consider an introductory paragraph that explains the intimidation threat, what causes the threat (pressure that will lead to breach of fundamental principle) and safeguards ensuring that the PAIB will not breach the fundamental principles either by disassociation or by managing the pressure. The Task Force proposes to change the introductory sentence to refer to intimidation threats as suggested but believes it would confuse

¹⁴ Proposed Section 370, *Pressure to Breach the Fundamental Principles*

users to have an introductory paragraph referring to threats and safeguards if the language is not used in the section.

- Many PAIBs would not be familiar with how safeguards are used in the Code. In addition, some questions have been raised regarding the meaning of a safeguard. This matter will be separately explored as part of the Board's Strategy and Work Plan 2014-2018.
 - Threats and safeguards is not a terminology matter; rather, it is a methodology that is used throughout the entire Code and there should not be exceptions. The fact that proposed Section 360¹⁵ does not use the threats and safeguards terminology is because it is about an exception to a fundamental principle.
 - There may be no real safeguards available to the PAIB faced with pressure to breach the fundamental principles other than to refuse or resign.
 - The substance of the guidance is helpful to PAIBs and the formality of the language is of less importance. The aim should be to have a Code that is understandable, which Section 370 is intended to achieve, and that can help professional accountants to act in the public interest.
28. Although the proposed Section does not use the language of threats and safeguards, it does include actions the PAIB should consider if the pressure could lead to a breach of the fundamental principles as well as a requirement to decline or discontinue the activity if the pressure cannot be alleviated or eliminated, and consideration, where necessary, of the PAIB's continuing relationship with the employing organization.

REQUIREMENTS

29. Consideration was given to how to word a requirement not to yield to pressure. The Task Force proposed, and the Board supported, rewording the requirement not to yield to pressure as follows (see paragraph 370.1):

The professional accountant shall not allow such pressure to result in a breach of the fundamental principles.

30. This avoids weakening a requirement which is fundamental to this section while limiting it to matters within the professional accountant's personal responsibility.

OTHER MATTERS

31. Other significant matters raised by the Board included:
- The examples could be re-ordered into a sequence that reflects the relevant actions that a PAIB may take when faced with each example. The Task Force explored this suggestion and noted that the individual examples cannot be helpfully linked to relevant actions. Some actions such as "constructive challenge" relate to most examples. Other actions such as "consulting legal counsel" could apply to any example but only after other actions have been explored. It would therefore be unhelpful to suggest a linkage between examples and relevant actions.

¹⁵ Proposed Section 360, *Non-Compliance with Law and Regulations*

- The draft wording included that a PAIB may wish to consult a “trusted friend” when determining whether the pressure would lead to a breach of the fundamental principles. Some Board members questioned whether this would be a breach of the fundamental principle of confidentiality. They recognized that although such actions may occur, it was inappropriate to acknowledge this in the Code. Other Board members believed that this is important guidance and should be retained. The Task Force believes that discussing the pressure with another person may be an important part of evaluating the pressure and determining whether it could result in a breach of the fundamental principles. It is also mindful of the fundamental principle of confidentiality, which can also restrict communication both within and outside an organization. The Task Force has identified a number of persons or organizations with whom a PAIB can consult, with the caveat that the PAIB is to be alert to the fundamental principle of confidentiality. A trusted friend was deleted from the list of options.
 - The construct that “a PAIB may face pressure to breach the fundamental principles” should be changed because pressure in and of itself does not lead to a breach; a PAIB must act on the pressure in order for there to be a breach. This construct has been amended to (for example) “pressure that could lead to, or result in, a breach” wherever it occurs in the Section.
32. The Task Force also created a distinction between the factors the PAIB may wish to consider when faced with pressure that could lead to a breach of the fundamental principles (paragraph 370.5) and the actions that a PAIB may wish to consider if the PAIB has determined that the pressure would lead to a breach of the fundamental principles (paragraph 370.6).

Matters for Consideration

5. Do Representatives agree with the Board’s approach to drafting the proposed Section 370, i.e., focusing more on providing helpful guidance to the PAIB rather than seeking to draft it in terms of threats and safeguards?
6. Are the actions that a PAIB may wish to consider when faced with pressure appropriate? Are there any other actions that a PAIB could take?

Phase 2 of the Project – Inducements

33. The Part C project proposal is divided into two phases. Phase 1 is addressed above. Phase 2 addresses Section 350 (Inducements).
34. Section 350 concerns PAIBs receiving offers and making offers. Facilitation payments and bribes are a challenging and perennial problem area for PAIBs, especially in the context of an international code of ethics and for organizations operating across jurisdictional and cultural boundaries. The description of an inducement in paragraph 350.1 is wide ranging but does not refer to important aspects such as “facilitation payments” or bribery. While most legislation is believed to focus on inappropriate payments, Section 350 is focused on “receiving offers.” “Making offers” has less prominence in Section 350. Section 350 prohibits a PAIB from offering an inducement. However, the Code does not currently address the situation of the PAIB who becomes aware of a bribe made by others. Although the section on receiving offers lists safeguards, a PAIB is thought to be more likely to encounter the making of offers.

35. Consideration should therefore be given to whether additional guidance could be provided to assist the PAIB when encountering the “making of offers” within the employing organization. Consideration should also be given to how this might overlap with the IESBA’s current project on responding to suspected NOCLAR.
36. Separately, the project proposal noted a lack of symmetry between Section 350 and Sections 260, 290.227, and 291.156 (Gifts and Hospitality) in Part B. Consideration should therefore be given to revisiting Section 260 if changes are made to Section 350.
37. Consideration should also be given to whether additional guidance that recognizes the diversity of cultures would be helpful to PAIBs working across different cultures and jurisdictions.
38. The Task Force is at a very early stage of discussion about Section 350, but will have proceeded further by the time of the next CAG meeting. To expedite the Task Force’s research into inducements and to provide a global perspective, Representatives are asked to provide advice and information on the following matters.

Matters for Consideration

7. Do Representatives know of useful sources of information or policy about Inducements and how the issue of high risk jurisdictions have been addressed?
8. Do Representatives have any views as to whether Section 350 should contain guidance about how to distinguish inducements that could result in a breach of the fundamental principles from inducements that would not result in a breach of the fundamental principles?
9. The Task Force recognizes the importance of having a standard that is sensitive to cultural differences. Do Representatives have any views as to whether the Task Force should look for a way to explicitly address, or at least to acknowledge, cultural differences as they relate to Inducements?

Material Presented – CAG Paper

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| Agenda Item G-1 | Proposed Changes to Part C (Clean) |
| Agenda Item G-2 | Proposed Changes to Part C (Mark-up of s.320 and s.370 from July IESBA and other sections from extant) |