

Proposed Part C Exposure Draft**(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, a volunteer or another working for one or more employing organization. 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 the ability and opportunity there is 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.
- 300.6 A professional accountant in business shall not knowingly engage in any business, occupation, or activity that impairs or might impair integrity, 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 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 a professional accountant in business believes that unethical behavior or actions by others will continue to occur within the work environment, the professional accountant in business may consider obtaining legal advice. In those extreme situations 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 resign from the organization.

Section 310

Conflicts of Interest

310.1 A professional accountant in business may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

The professional accountant undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or

The interests of the professional accountant with respect to a particular matter and the interests of a party for whom the professional accountant undertakes a professional activity related to that matter are in conflict. A party may include an employing organization, a vendor, a customer, a lender, a shareholder, or another party. A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

310.2 Examples of situations in which conflicts of interest may arise include:

- Serving in a management or governance position for two employing organizations and acquiring confidential information from one employing organization that could be used by the professional accountant to the advantage or disadvantage of the other employing organization.
- Undertaking a professional activity for each of two parties in a partnership employing the professional accountant to assist them to dissolve their partnership.
- Preparing financial information for certain members of management of the entity employing the professional accountant who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the accountant's employing organization when an immediate family member of the professional accountant could benefit financially from the transaction.
- Serving in a governance capacity in an employing organization that is approving certain investments for the company where one of those specific investments will increase the value of the personal investment portfolio of the professional accountant or an immediate family member.

310.3 When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an acceptable level, a professional accountant in business shall exercise professional judgment and be alert to all interests and relationships that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude might compromise compliance with the fundamental principles.

310.4 When addressing a conflict of interest, a professional accountant in business is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel or another professional accountant. When making disclosures or sharing information within the employing organization and seeking guidance of third parties, the professional accountant shall remain alert to the fundamental principle of confidentiality.

- 310.5 If the threat created by a conflict of interest is not at an acceptable level, the professional accountant in business shall apply safeguards to eliminate the threat or reduce it to an acceptable level. If safeguards cannot reduce the threat to an acceptable level, the professional accountant shall decline to undertake or discontinue the professional activity that would result in the conflict of interest; or shall terminate the relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.
- 310.6 In identifying whether a conflict of interest exists or may be created, a professional accountant in business shall take reasonable steps to determine:
- The nature of the relevant interests and relationships between the parties involved; and
 - The nature of the activity and its implication for relevant parties. The nature of the activities and the relevant interests and relationships may change over time. The professional accountant shall remain alert to such changes for the purposes of identifying circumstances that might create a conflict of interest.
- 310.7 If a conflict of interest is identified, the professional accountant in business shall evaluate:
- The significance of relevant interests or relationships; and
 - The significance of the threats created by undertaking the professional activity or activities. In general, the more direct the connection between the professional activity and the matter on which the parties' interests are in conflict, the more significant the threat to objectivity and compliance with the other fundamental principles will be.
- 310.8 The professional accountant in business shall apply safeguards, when necessary, to eliminate the threats to compliance with the fundamental principles created by the conflict of interest or reduce them to an acceptable level. Depending on the circumstances giving rise to the conflict of interest, application of one or more of the following safeguards may be appropriate:
- Restructuring or segregating certain responsibilities and duties.
 - Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.
 - Withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.
 - Consulting with third parties, such as a professional body, legal counsel or another professional accountant.
- 310.9 In addition, it is generally necessary to disclose the nature of the conflict to the relevant parties, including to the appropriate levels within the employing organization and, when safeguards are required to reduce the threat to an acceptable level, to obtain their consent to the professional accountant in business undertaking the professional activity. In certain circumstances, consent may be implied by a party's conduct where the professional accountant has sufficient evidence to conclude that parties know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.
- 310.10 When disclosure is verbal, or consent is verbal or implied, the professional accountant in business is encouraged to document the nature of the circumstances giving rise to the conflict of

interest, the safeguards applied to reduce the threats to an acceptable level and the consent obtained.

- 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 Section 320, 340 and 370 of the Code.

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. This 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; and 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.

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 core operating items and unusual items are not distinguished, in a manner that is misleading.
- 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, when preparing or presenting financial information such as pro-forma reports, budgets or forecasts, the professional accountant shall include relevant estimates, approximations and assumptions that may be 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 higher level(s) of management within the professional accountant's organization or those charged with governance.
- 320.7 If, after such discussions the professional accountant determines that the information is still misleading, the professional accountant may consider one or more of the following steps:
- Consulting legal counsel regarding the professional accountant's and the employing organization's responsibilities.
 - Consulting with a relevant professional body.
 - Determining whether any responsibilities 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 the professional accountant's continuing relationship with 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.

Section 330

Acting with Sufficient Expertise

- 330.1 The fundamental principle of professional competence and due care requires that a professional accountant in business only undertake significant tasks for which the professional accountant in business has, or can obtain, sufficient specific training or experience. A professional accountant in business shall not intentionally mislead an employer as to the level of expertise or experience possessed, nor shall a professional accountant in business fail to seek appropriate expert advice and assistance when required.
- 330.2 Circumstances that create a threat to a professional accountant in business performing duties with the appropriate degree of professional competence and due care include having:
- Insufficient time for properly performing or completing the relevant duties.
 - Incomplete, restricted or otherwise inadequate information for performing the duties properly.
 - Insufficient experience, training and/or education.
 - Inadequate resources for the proper performance of the duties.
- 330.3 The significance of the threat will depend on factors such as the extent to which the professional accountant in business is working with others, relative seniority in the business, and the level of supervision and review applied to the work. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:
- Obtaining additional advice or training.
 - Ensuring that there is adequate time available for performing the relevant duties.
 - Obtaining assistance from someone with the necessary expertise.
 - Consulting, where appropriate, with:
 - Superiors within the employing organization;
 - Independent experts; or
 - A relevant professional body.
- 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 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 or of colleagues, 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, close family member or colleague:

- 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 Threats arising from compensation or incentive arrangements may be further compounded by explicit or implicit 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.

340.3 A professional accountant in business shall not manipulate information or use confidential information for personal gain or for the financial gain of others.

340.4 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.

340.5 Section 370 addresses pressure that could lead a professional accountant to breach the fundamental principles.

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 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 lead to 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:

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

370.6 If the professional accountant has determined that the pressure could lead to 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 segregating 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 the professional accountant's continuing relationship with the employing organization.

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

370.9 Where pressure to breach the fundamental principles:

- Arises from a conflict of interest the guidance in Section 310 is relevant.
- Arises from presenting information the guidance in Section 320 is relevant.
- Arises from acting without sufficient expertise or due care the guidance in Section 330 is relevant.
- Arises from a financial interest, compensation or incentive linked to financial reporting and decision making, the guidance in Section 340 is relevant.
- Arises from inducements the guidance in Section 350 is relevant