

## Agenda Item 5-B

### COMPILATION OF PROPOSED CHANGES TO THE CODE<sup>1</sup> BEING CONSIDERED FOR RECOMMENDATIONS ONE TO SIX

**Note to IESBA members:**

The purpose of Agenda Item 5-B is to provide readers with a holistic view of the various proposed Code changes currently being considered by the Task Force as outlined throughout the paper for recommendations one to six only.

#### **PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK**

##### **SECTION 100**

##### **COMPLYING WITH THE CODE**

###### **Introduction**

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.
- 100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organizations involve professional accountants in a broad range of areas, including financial and corporate reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:
- (a) Adherence to ethical principles and professional standards;
  - (b) Use of business acumen;
  - (c) Application of expertise on technical and other matters; and
  - (d) Exercise of professional judgment.
- The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.
- 100.3 The Code sets out high quality standards of ethical behavior expected of professional accountants for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics standards for professional accountants in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.

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<sup>1</sup> As modified by the Role & Mindset Pronouncement

- 100.4 The Code establishes five fundamental principles to be complied with by all professional accountants and against which they are held accountable. In fulfilling accountability, an accountant considers the level of transparency appropriate in light of the situation. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence. The Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that accountants might encounter, whether in business or in public practice.

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## SUBSECTION 111 – INTEGRITY

- R111.1** A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships.
- 111.1 A1 Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences.
- 111.1 A2 Acting appropriately involves:
- (a) Standing one's ground when confronted by dilemmas and difficult situations; or
  - (b) Challenging others as and when circumstances warrant,
- in a manner appropriate to the circumstances.
- R111.2** A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:
- (a) Contains a materially false or misleading statement;
  - (b) Contains statements or information provided recklessly; or
  - (c) Lacks transparency in that it omits or obscures required information where such omission or obscurity would be misleading.
- 111.2 A1 If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2.
- R111.3** When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information.

Commented [KL1]: Recommendation 3  
Transparency

## SUBSECTION 112 – OBJECTIVITY

- R112.1** A professional accountant shall comply with the principle of objectivity, which requires an accountant to exercise professional or business judgment without being compromised by:
- (a) Bias;
  - (b) Conflict of interest; or

- (c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

**R112.2** A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

## SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

**R113.1** A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:

- (a) Attain, ~~and~~ maintain apply and integrate technical professional knowledge and professional skills with the professional values, ethics and attitudes embodied in the Code, at the level required to ~~ensure that a client or employing organization receives competent perform professional activities service, based on current technical and professional standards and relevant legislation;~~ and
- (b) Act diligently and in accordance with applicable relevant technical and professional standards and legislation.

**113.1 A1** Standards of professional competence are contained in the International Education Standards as maintained by IFAC and are implemented through the professional competency requirements of individual jurisdictions.

**113.1 A2** 4 Serving clients and employing organizations with professional competence requires the exercise of professional skills such as sound judgment, critical thinking, leadership, communication and collaboration in applying professional knowledge and skill when undertaking professional activities.

**113.1 A2** 3 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and technology-related developments. Adopting adaptive and growth mindsets and continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

**113.1 A** 3 4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

**R113.2** In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.

**R113.3** Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in nature of the services or activities, including limitations and uncertainties inherent in them.

**113.3 A** 1 A professional accountant considers the level of transparency appropriate for clients, the employing organization, or other users of the accountant's professional services or activities when making them aware of the nature of the services or activities.

Commented [KL2]: Recommendation 6 Enabling Competencies and Skills

Commented [KL3]: Recommendation 6 Enabling Competencies and Skills

Commented [KL4]: Recommendation 6 Enabling Competencies and Skills

Commented [KL5]: Recommendation 6 Enabling Competencies and Skills

Commented [KL6]: Recommendation 2 Complexity

Commented [KL7]: Recommendation 3 Transparency

~~R113.4 When undertaking professional activities, a professional accountant shall take reasonable steps to ensure that there is not inappropriate use of, or reliance on, the work/outputs of others or on technology.~~

Commented [KL8]: Recommendation 4  
Accountability

## SUBSECTION 114 – CONFIDENTIALITY

Commented [KL9]: Recommendation 5  
Confidentiality

R114.1 A professional accountant shall comply with the principle of confidentiality, which requires an accountant to ~~respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall:~~

- ~~(a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;~~
- ~~(b) Maintain confidentiality of information within the firm or employing organization;~~
- ~~(c) Maintain confidentiality of information disclosed by a prospective client or employing organization;~~
- ~~(d) Not disclose Protect confidential information acquired as a result of professional and business relationships ~~outside the firm or employing organization~~ and not disclose such information without proper and specific authority, unless there is a legal or professional duty or right to disclose;~~
- ~~(eb) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;~~
- ~~(f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and~~
- ~~(gc) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.~~

114.1 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

- ~~(a) Disclosure is permitted by law [and regulation] and is authorized by the client or the employing organization; [repositioned from extant 114.1 A1(b)]~~
- ~~(b) Disclosure is required by law [or regulation], for example: [repositioned from extant 114.1 A1(a)]~~
  - ~~(i) Production of documents or other provision of evidence in the course of legal proceedings; or~~
  - ~~(ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and~~
- (c) There is a professional duty or right to disclose, when not prohibited by law:

- (i) To comply with the quality review of a professional body;
- (ii) To respond to an inquiry or investigation by a professional or regulatory body;
- (iii) To protect the professional interests of a professional accountant in legal proceedings; or
- (iv) To comply with technical and professional standards, including ethics requirements.

114.1 A2 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed type of communication, ~~and to whom it is addressed.~~
- Whether the parties to whom the communication is addressed or access is granted are appropriate recipients.
- The extent to which controls are in place to prevent further dissemination by the recipient.

114.1 A3 Protection of confidential information is important throughout the collection, use, storage, dissemination, and lawful destruction of the information.

R114.2 A professional accountant shall:

- (a) Protect the confidential information of a prospective client or employing organization, and
- (b) eContinue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired ~~or received~~ as a result of a professional or business relationship.

## SUBSECTION 115 – PROFESSIONAL BEHAVIOR

R115.1 A professional accountant shall comply with the principle of professional behavior, which requires an accountant to:

- (a) Comply with relevant laws and regulations;
- (b) Behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships; and

- (c) Avoid any conduct that the accountant knows or should know might discredit the profession.

A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

- 115.1 A1 Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

- R115.2 When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

- (a) Exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or
- (b) Disparaging references or unsubstantiated comparisons to the work of others.

- 115.2 A1 If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body.

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## SECTION 120 THE CONCEPTUAL FRAMEWORK

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### Identifying Threats

- R120.6 The professional accountant shall identify threats to compliance with the fundamental principles.

- 120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance the accountant acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

- 120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

- 120.6 A3 Threats to compliance with the fundamental principles **generally fall** into one or more of the following categories:

**Commented [KL10]: Recommendation 2 Complexity**  
(Option 2-2 Modifying the existing threat categories)

**Commented [KL11]: Recommendation 2 Complexity**  
(Option 2-1 Modifying the lead-in to the Conceptual Framework threat categories)

- (a) Self-interest threat – the threat that a personal, professional, or other interest, which includes a financial ~~or other~~ interest will inappropriately influence a professional accountant's judgment or behavior;
- (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made, or an activity performed by the accountant, or by another individual or technology, within or from the accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;
- (c) Advocacy threat – the threat that a professional accountant will promote a client's or employing organization's position ~~to the point that the accountant's objectivity is compromised when it is inappropriate or unjustified to do so~~;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively, appropriately because of actual or perceived constraints, expectations, or pressures, including attempts to exercise undue influence over the accountant. This may result in the professional accountant feeling overwhelmed and make it impossible for the individual to determine what acting appropriately would be.
- (f) Complexity threat – the threat that a professional accountant will be unable to make a fully informed judgment because of extremely complex and interrelated facts and circumstances.

Commented [KL12]: Recommendation 2 Complexity (Option 2-3 Adding one or more new threat categories)

120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

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#### Other Considerations when Applying the Conceptual Framework

##### Bias

120.12 A1 Conscious or unconscious bias affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of potential bias to be aware of when exercising professional judgment include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.

- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to obtain additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

#### *Organizational Culture*

120.13 A1 The effective application of the conceptual framework by a professional accountant is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the accountant's organization.

120.13 A2 The promotion of an ethical culture within an organization is most effective when:

- (a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the organization;
- (b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- (c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers; and
- (d) The organization adheres to ethical values in its dealings with third parties.

120.13 A3 Professional accountants are expected to encourage and promote an ethics-based culture in their organization, taking into account their position and seniority.

120.13 A4 The role of the professional accountant, whether in business or in public practice, involves the use of technology, and might involve the development of technology, either directly or in relation to outputs from technology-driven processes. Promoting ethical behavior is critical within organizations when developing and using technology, given its pervasive impact.

Complexity

**Commented [KL13]:**  
**Recommendation 1 Building Trust**

**Commented [KL14]:**  
**Recommendation 2 Complexity** (Option 2-4  
Highlighting complexity as a pervasive factor in  
decision-making while applying the Conceptual  
Framework)

120.xx A1 Complex problems, characterized by unpredictable, interrelated, dynamic and often unknown factors, have a pervasive effect on compliance with the fundamental principles and affect the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.xx A2 Complex problems tend not to have solutions, but rather require ongoing management. This contrasts with complicated problems, which might be difficult, but are generally solvable using defined steps, algorithms and formulas, and where there is generally a well-defined outcome that signifies success. regulations

120.xx A3 Situations where professional accountants should consider the effects of complexity when exercising professional judgment include those with a:

- dynamic and fast or exponentially changing environment;
- high degree of uncertainty or ambiguity, including where there are unknown factors outside the control of the accountant;
- lack of predictability and/or reproducibility;
- unique context that has not been previously faced by the accountant;
- lack of explainability or transparency;
- high sense of urgency with severe consequences for any decision made; and
- lack of clear outcomes that indicate success.

120.xx A4 Actions that might help manage and mitigate complexity include:

- Adopting adaptive and growth mindsets
- Maintaining awareness of the evolving professional, business and technological environment and seeking appropriate upskilling.
- Performing frequent or continuous scenario analysis to allow for ongoing management of unpredictable results and determine appropriate actions.
- Using technology to assist in monitoring and evaluating a complex system.
- Consulting broadly and in a timely manner with a wide range of experts to obtain input and ensure appropriate challenge as part of the evaluation process.

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## **PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS**

### **SECTION 220**

#### **PREPARATION AND PRESENTATION OF INFORMATION**

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##### **Requirements and Application Material**

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##### **Relying on Technology or the Work of Others**

**R220.7** A professional accountant who intends to rely on technology or the work of others individuals, either internal or external to the employing organization, or other organizations shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

Commented [KL15]: Recommendation 4  
Accountability

220.7 A1 Factors to consider in determining whether reliance on others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

220.7 A2 Factors to consider in determining whether reliance on technology is reasonable include:

- The level of understanding and confidence in the organization's system of quality controls, including internal controls over processes such as vendor selection; development and implementation; system and data security; and review of system outputs.
- The experience and reputation of the technology provider in the marketplace.
- The extent of algorithms, learning, and autonomy incorporated into the technology and their levels of explainability and transparency.
- The extent of bias in the data and algorithms.

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## GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

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Confidential information

Data, information, and material that is not in the public domain. This includes information for which privacy would be required or reasonably expected.

Commented [KL16]: Recommendation 5 Confidentiality