

Agenda Item 5-B

Restructured Part C Phase 1 Text With Safeguards Conforming Amendments [Mark-up from September 2016 IESBA Meeting Discussion]

Note to Meeting Participants:

Text highlighted in gray include conforming amendments arising from the Safeguards project. The rationale for those conforming amendments are explained in **Agenda Item 4-A**. IESBA members will be asked to comment on the conforming amendments during the Safeguards session of the meeting.

A. Chapter 1 of Structure ED-2 – Part 2, Professional Accountants in Business

PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

Section 200

Applying the Conceptual Framework – Professional Accountants in Business

Introduction

200.1 This Part of the Code describes requirements and application material considerations for professional accountants in business when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships that could be encountered by professional accountants in business, which that create or might create threats to compliance with the fundamental principles. Therefore, professional accountants in business are required to be alert for such facts and circumstances.

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200.23 Investors, creditors, employers and other sectors of the business community, as well as governments and the public, might rely on the work of professional accountants in business. Professional accountants in business might be solely or jointly responsible for the preparation and reporting of financial and other information, on which both their employing organizations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.

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200.43 A professional accountant in business might may be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organization. The legal form of the relationship of the accountant with the employing organization has no bearing on the ethical responsibilities placed on the accountant.

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200.452 In this Part, the term "professional accountant" and accountant refers to:

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- (a) Professional accountants in business; and
- (b) Professional accountants in public practice when performing professional activities pursuant to the professional accountant's employment or ownership relationship with their firm. Refer to paragraphs. More information on when Part 2 might be applicable to

professional accountants in public practice is set out in R120.4, 120.4 A1, R300.5 and 300.5 A1.

Requirements and Application Material

R200.5 A professional accountant shall comply with ~~each of~~ the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

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200.5 A1 A professional accountant has a responsibility to further the legitimate ~~objectives~~ aims of the accountant's employing organization. The Code does not seek to hinder accountants from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.

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200.5 A2 Professional accountants may promote the position of the employing organization when furthering the legitimate goals and objectives of their employing organization, provided any statements made are neither false nor misleading. Such actions usually ~~generally~~ would not create an advocacy threat.

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200.5 A3 All professional accountants have a responsibility to act in the public interest. The more senior the position of the accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization. Examples of actions that might be taken include the introduction, implementation and oversight of:

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- Ethics education and training programs.
- Ethics and whistle-blowing policies.
- Policies and procedures to prevent non-compliance with laws and regulations.

Identifying Threats

200.6 A1 Compliance with the fundamental principles might be threatened by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are ~~categories of threats, and examples of facts and circumstances~~ within each of those categories that might create those threats for a professional accountant when undertaking a professional activity:

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(a) Self-interest Threats

- A professional accountant holding a financial interest in, or receiving a loan or guarantee from, the employing organization.
- A professional accountant participating in incentive compensation arrangements offered by the organization.
- A professional accountant ~~inappropriately~~ using corporate assets for personal use.
- A professional accountant ~~concern over employment security.~~

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- A professional accountant accepting a gift or special treatment from a supplier of the employing organization, ~~unless the value is trivial and inconsequential.~~
- (b) **Self-review Threats**
- A professional accountant determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- (c) **Advocacy Threats**
- A professional accountant, ~~in order to obtain favorable financing, having the opportunity to manipulate~~ includes in, or excludes critical information in ~~from~~ a prospectus.
- (d) **Familiarity Threats**
- A professional accountant being responsible for the financial reporting of the employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial reporting of the organization.
 - A professional accountant having a long association with contacts influencing business decisions.
- (e) **Intimidation Threats**
- A professional accountant or immediate or close family member facing the threat of dismissal or replacement over a disagreement about the application of either:
 - An accounting principle; or
 - The way in which financial information is to be reported.
 - An individual attempting to influence the decision making process of the professional accountant, for example with regard to the awarding of contracts or the application of an accounting principle.

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Commented [STAFF13]: 300.12

Evaluating Threats

200.6 A2 Conditions, policies and procedures as described in 120.6 A1 that might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to ~~include the nature of:~~

- (a) The professional activity being conducted; and
- (b) The employing organization and its operating environment.

The professional accountant's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.

200.6 A3 A professional accountant's evaluation of the level of a threat might be impacted by Factors in the work environment within the employing organization and its operating environment. For example: that are important in evaluating the level of any threat created include : ~~The employing organization's:~~

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

200.7 A1 Professional accountants ~~might~~ may consider obtaining legal advice where they believe that unethical behavior or actions by others have occurred, or will continue to occur, within the employing organization.

Commented [IESBA16]: 300.15

200.7 A2 In extreme situations, if the circumstances that created the threats cannot be eliminated or safeguards are not capable of being applied to reduce the threat to an acceptable level, it might be necessary for a professional ~~an~~ accountant might determine that it is appropriate to resign from the employing organization, when all safeguards have been exhausted and it is not possible to reduce the threat to an acceptable level.

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Communicating with Those Charged with Governance

R200.8 When communicating with those charged with governance in accordance with the Code, a ~~the~~ professional accountant shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary.

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200.8 A1 In determining with whom to communicate, a ~~the~~ professional accountant might consider:

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- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

200.8 A2 If a professional accountant communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, communication with all of those charged with governance might also be necessary to ensure they are adequately informed.

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R200.9 If all of those charged with governance are involved in managing the entity, the professional accountant shall be satisfied that communication with those persons adequately informs all of those in a governance role with whom the accountant would otherwise communicate.

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200.9 A1 In some circumstances, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated with person(s) with management responsibilities, and those persons also have governance responsibilities, the matters do not need to be communicated again with those same persons in their governance role.

Commented [IESBA22]: New paragraphs

Section 210

Conflicts of Interest

Introduction

~~210.12~~ Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats created by a conflict of interest. ~~Section 210 sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest.~~

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~~210.231~~ Professional accountants might face circumstances that create a conflict of interest. A conflict of interest creates a threat to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles.

Commented [IESBA24]: 310.1

~~210.3~~ Such threats might be created when:

Commented [STAFF25]: 310.1

- (a) ~~A~~ 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
- (b) The interest of ~~a professional~~ the accountant with respect to a particular matter and the interests of a party for whom the accountant undertakes a professional activity related to that matter are in conflict.

A party ~~might~~ include an employing organization, a vendor, a customer, a lender, a shareholder, or another party.

~~210.3~~ Section 210 sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest.

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Requirements and Application Material

General Conflict Identification

~~R210.45~~ A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

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~~210.4 A1~~ Examples of circumstances that might create a conflict of interest include:

Commented [IESBA28]: 310.2

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

Conflict Identification

R210.56 ~~In identifying whether a conflict of interest exists or might be created, a~~ professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest, ~~and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall~~ including identifying:

Commented [STAFF29]: 310.3 / 310.6

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The activity and its implication for relevant parties.

R210.67 ~~The nature of the activities, interests and relationships might change over time. A professional accountant shall remain alert to changes over time in the nature of the activities, interest and relationships~~ circumstances that might create a conflict of interest ~~during a professional activity.~~

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Applying the Conceptual Framework to Threats Created by Conflicts of Interest

210.78 A12 In general, the more direct the connection between the professional activity and the matter on which the parties' interests conflict, the ~~more likely that~~ higher the level of the threat is ~~not at an acceptable level may be.~~

Commented [STAFF31]: 310.7

210.78 A24 Factors that are ~~relevant in evaluating the level of any threats~~ created by a conflict of interest include an understanding of:

Commented [STAFF32]: 310.3

- The interests or relationships; and
- The type of threats created by performing the professional activity.

210.78 A3 Examples of actions that might be safeguards to address threats created by conflicts of interest include:

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- ~~A R~~restructure ing or segregation of certain responsibilities and duties.
- ~~Obtaining a~~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 third parties, such as a professional body, legal counsel or another professional accountant.

210.7 A4 ~~Another action that might address threats created by conflicts of interest includes~~ ~~W~~withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.

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Disclosure and Consent

210.89 A1 It is generally necessary:

Commented [IESBA35]: 310.9

- (a) To disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties, including, to the appropriate levels within the employing organization;

and

(b) When safeguards are applied to reduce the threat to an acceptable level, to obtain their consent from the relevant parties ~~to~~for the professional accountant to undertakeing the professional activity.

210.89 A2 Consent might be implied by a party's conduct in circumstances 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.

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210.89 A3 If such disclosure or consent is not in writing, the professional accountant is encouraged to document:

Commented [IESBA37]: 310.10

(a) The nature of the circumstances giving rise to the conflict of interest;

(b) The safeguards applied to reduce the threats to an acceptable level; ander

(c) The consent obtained.

Other Considerations

210.940 A1 ~~When addressing a conflict of interest, the professional accountant is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel or another accountant. When making such disclosures or sharing information within the employing organization and seeking guidance of third parties, the fundamental principles of confidentiality applies.~~

Commented [STAFF38]: 310.4

210.1044 A1 ~~—A professional accountant might encounter other threats to compliance with the fundamental principles, for example, when:~~

Commented [STAFF39]: 310.11

- Preparing or presentingreporting 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.

Requirements and application material relevant toer managing such threats is set out in Sections 220, 240 and 270.

Section 220

Preparation and Presentation of Information

Introduction

~~220.12~~ Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

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~~220.24~~ Self-interest, intimidation or other threats to compliance with the fundamental principles might be created when an accountant is responsible for preparing or presenting information.

Commented [STAFF41]: New paragraph

~~220.3~~ Section 220 sets out specific requirements and application material relevant to applying the conceptual framework when preparing and presenting information ~~relevant to applying the conceptual framework when preparing or presenting information.~~

Commented [IESBA42]: New paragraph

Requirements and Application Material

~~220.34~~ A1 Professional accountants at all levels in an employing organization are involved in the preparation and presentation of information both within and outside the organization.

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~~220.45~~ A1 Stakeholders to whom, or for whom, such information is ~~prepared or presented or prepared,~~ include:

Commented [IESBA44]: 320.1

- Management and those charged with governance.
- Investors, lenders and other creditors.
- Regulators.

This information might assist stakeholders in understanding and evaluating aspects of the organization's state of affairs and in making decisions concerning the organization. Information can include financial and non-financial information that might 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.

~~220.65~~ A1 For the purposes of this section, preparing or presenting information includes recording, maintaining and approving information.

Commented [STAFF45]: 320.2

~~220.76~~ A1 The professional accountant is required to Ccomplying with the fundamental principles when preparing or presenting information which includes:

Commented [IESBA46]: 320.2

- Presenting the information in accordance with a relevant reporting framework, where applicable.
- Preparing or presenting it 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 or of influencing contractual or regulatory outcomes inappropriately. An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement of a financial institution.~~
- ~~220.6 A3 Complying with the fundamental principles when preparing or presenting information also involves using~~ Exercising professional judgment to:
 - Represent the facts accurately and completely in all material respects.
 - Describe clearly the true nature of business transactions or activities.
 - Classify and record information in a timely and proper manner.

Use of Discretion in Preparing or Presenting Information

R220.87 Preparing or presenting information might require the exercise of discretion in making professional judgements. The professional accountant shall not exercise such discretion with the intention of misleading or influencing contractual or regulatory outcomes inappropriately.

Commented [IESBA47]: 320.3

220.87 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes includes:

Commented [STAFF48]: 320.3

- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.
- Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, ~~for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.~~
- Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.
- Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting disclosures, for example, omitting or obscuring information relating to financial or operating risk in order to mislead.

R220.98 When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the professional accountant shall ~~exercise~~ use professional judgment to identify and consider:

Commented [IESBA49]: 320.4

- (a) The purpose for which the information is to be used;
- (b) The context in which it is given; and
- (c) The audience to whom it is addressed.

~~220.98 A1~~ For example, when preparing or presenting pro forma reports, budgets or forecasts, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgments.

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~~220.98 A2~~ The accountant might also consider clarifying the intended audience, context and purpose of the information to be presented.

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Relying on the Work of Others

~~R220.109~~ A professional accountant who intends to rely on the work of others, either internal or external to the organization, shall ~~exercise~~ professional judgment to determine what steps to take, if any, to ensure that the obligations set out in paragraph ~~R220.7 A1-4~~ are fulfilled.

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~~220.10 9A1~~ Factors to consider in determining whether reliance on others is reasonable include:

Commented [STAFF53]: 320.5

- Reputation, expertise, resources available to the individual or organization; and
- Whether the other individual is subject to applicable professional and ethical standards.

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

Addressing Information that Might be Misleading

~~R220.1140~~ When the professional accountant becomes aware that the information with which the accountant is associated is misleading, the accountant shall take appropriate actions to seek to resolve the matter.

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~~220.1140 A1~~ Possible ~~a~~Actions that might be appropriate include:

Commented [STAFF55]: 320.6

- Consulting the policies and procedures of the employing organization (for example, an ethics or whistle-blowing policy) regarding how to address such matters ~~should be addressed internally~~.
- Discussing concerns that the information is misleading with the professional accountant's supervisor and/or the appropriate level(s) of management within the accountant's organization or those charged with governance and requesting such individuals to take appropriate action to resolve the matter. Such action ~~might~~may include:
 - Having the information corrected.
 - If the information has already been disclosed to the intended users, informing them of the correct information.

In situations where the misleading information might involve non-compliance with laws and regulations, Section 260 sets out requirements and application material on how to respond to such situations.

~~R220.1244~~ If the professional accountant determines that appropriate action has not been taken and continues to have reason to believe that the information is misleading, the professional accountant, while being alert to the ~~fundamental~~ principle of confidentiality, shall consider one or more of the following:

Commented [STAFF56]: 320.7

- Consulting with:

- A relevant professional body.
- The internal and external auditor of the employing organization.
- Legal counsel.
- Determining whether any requirements exist to communicate to:
 - Third parties, including users of the information
 - Regulatory and oversight authorities.

~~220.11 A1~~ The fundamental principle of confidentiality applies in communications with external parties.

Commented [STAFF57]: 320.7

~~R220.1312~~ If after exhausting all feasible options, the professional accountant determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the accountant shall refuse to be or to remain associated with the information.

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~~220.1312 A1~~ The professional accountant might consider resigning from the employing organization.

Commented [STAFF59]: 320.8

~~220.1312 A2~~ The professional accountant is also encouraged to document:

Commented [STAFF60]: 320.8

- The facts.
- The accounting principles or other relevant professional standards involved.
- The communications and parties with whom matters were discussed.
- The courses of action considered.
- How the accountant attempted to address the matter(s).

Other Considerations

~~220.1413 A1~~ __Where threats to compliance with the fundamental principles relating to the preparation and presentation of information arise from a financial interest, including compensation and incentive linked to financial reporting and decision making, the requirements and application material set out in Section 240 are is-relevant.

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~~220.1413 A2~~ __Where threats to compliance with the fundamental principles relating to the preparation and presentation of information arise from pressure, the requirements and application material set out in Section 270 are is-relevant.

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Section 230

Acting with Sufficient Expertise

Introduction

230.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

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230.2 Self-interest threats to compliance with the principle of professional competence and due care are created if an accountant does not act with sufficient expertise.

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230.3 Section 230 sets out specific requirements and application material relevant to ~~on~~ applying the conceptual framework ~~relevant to~~ acting with sufficient expertise.

Commented [IESBA65]: New paragraph

Requirements and Application Material

R230.43 A professional accountant shall not intentionally mislead an employer as to the level of expertise or experience possessed.

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230.4 A1 An accountant might consider ~~shall also~~ seeking appropriate expert advice and assistance if required.

Commented [IESBA67]: 330.1

230.24 A24 The ~~fundamental~~ principle of professional competence and due care requires that a professional accountant only undertake significant tasks for which the accountant has, or can obtain, sufficient training or experience.

Commented [IESBA68]: 330.1

230.43 A34 A threat to compliance with the principle of professional competence and due care might be created if a professional accountant has:

Commented [STAFF69]: 330.2

- Insufficient time for performing or completing the relevant duties.
- Incomplete, restricted or otherwise inadequate information for performing the duties.
- Insufficient experience, training and/or education.
- Inadequate resources for the performance of the duties.

230.43 A42 ~~The level of the threat will depend on factors such as: Factors that are important in evaluating the level of any threats to acting with sufficient expertise include:~~

Commented [IESBA70]: 330.3

- The extent to which the professional accountant is working with others,
- Relative seniority of the accountant in the business, and
- The level of supervision and review applied to the work.

230.43 A53 ~~Examples of a~~ Actions that might be safeguards to address the threats set out in paragraph 230.4 A2 ~~to acting with sufficient expertise include:~~

Commented [IESBA71]: 330.3

- Obtaining additional advice, assistance or training from someone with the necessary expertise.
- 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.

R230.54 If threats to a professional accountant's ability to act with sufficient expertise cannot be addressed, the professional accountant shall determine whether to ~~decline~~ refuse to perform the duties in question. If the professional accountant determines that refusal is appropriate, the accountant shall communicate the reasons for the refusal.

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Other Considerations

230.54 A1 The requirements and application material in Section 270 applyies when a professional accountant is pressured to act in a manner that ~~might~~would lead to a breach of the fundamental principle of professional competence and due care.

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Section 240

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

Introduction

~~240.13~~ Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

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~~240.2~~ A professional accountant ~~h~~Having a financial interests, or knowing of any financial interests held by others, might create threats. Self-interest or familiarity threats to compliance with the principles of objectivity or confidentiality might, for example, be created where there is a motive or an opportunity to manipulate price-sensitive information.

Commented [IESBA75]: 340.1

~~240.3~~ Section 240 sets out specific requirements and application material relevant to applying the conceptual framework in relation to financial interests, compensation and incentives linked to financial reporting and decision making.

Commented [IESBA76]: 340.1

Requirements and Application Material

~~R240.4~~ A professional accountant shall not manipulate information or use confidential information for personal gain or for the financial gain of others.

Commented [STAFF77]: 340.2

~~240.44 A1~~ Professional accountants might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to financial reporting and decision making.

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~~240.4 A21~~ Examples of circumstances that might create threats include situations in which the professional accountant or an immediate or close family member:

Commented [STAFF79]: 340.1

- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest ~~might~~could be directly affected by decisions made by the accountant.
- Is eligible for a profit related bonus and the value of that bonus ~~might~~could be directly affected by decisions made by the accountant.
- Holds, directly or indirectly, deferred bonus share rights or share options in the organization, the value of which ~~might~~could be affected by decisions made by the accountant.
- Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximize the value of the organization's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain performance conditions being met.

~~240.4 A32~~ As part of evaluating ~~the whether a level of any threat created by financial interests is at an acceptable level~~, and, when necessary, in determining whether ~~those threats are safeguards are available or capable of being applied addressed~~, a professional accountant is required to evaluate the nature of the financial interest. This includes evaluating the significance of the

Commented [STAFF80]: 340.3

financial interest. What constitutes a significant financial interest will depend on personal circumstances.

240.4 A43 ~~Examples of actions that might be safeguards to address threats created from financial interests. Factors that might be relevant in evaluating the level of a threat created by a significant financial interest include:~~

Commented [STAFF81]: 340.3

- Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.
- In accordance with any internal policies, disclosure to those charged with governance of all relevant interests of
 - Any plans to exercise entitlements; or
 - Trade in relevant shares
- ~~Consultation, if appropriate, with:~~
 - ~~Superiors within the employing organization.~~
 - ~~Those charged with governance.~~
 - ~~Relevant professional bodies.~~
- Internal and external audit procedures that are specific to addressing issues arising from the financial interest.
- ~~Up-to-date education on:~~
 - ~~Ethical issues~~
 - ~~Legal restrictions; and~~
 - ~~Other regulations~~

240.4 A54 ~~Threats arising from compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. Section 270 addresses pressure that might~~lead a professional accountant to breach the fundamental principles.

Commented [STAFF82]: 340.4

[Reserved for Section 260, Responding to Non-Compliance with Laws and Regulations]

Section 270

Pressure to Breach the Fundamental Principles

Commented [STAFF83]: New heading

Introduction

~~270.12~~ Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats created by pressure.

Commented [IESBA84]: New paragraph

~~270.24~~ Pressure, whether exerted on, or by an accountant, might create threats to compliance with the fundamental principles.

Commented [IESBA85]: 370.1

~~270.3~~ Section 270 sets out specific requirements and application material that are relevant to applying the conceptual framework when addressing pressure that might result in a professional accountant taking actions that breach or cause others to breach the fundamental principles.

Commented [IESBA86]: 370.1

Requirements and Application Material

General

~~R270.4~~ A professional accountant shall not:

Commented [IESBA87]: 370.2

- a) ~~Allow~~ pressure from others to result in a breach of compliance with the fundamental principles.
- b) ~~The accountant also shall not p~~lace pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

~~270.3-4 A1~~ A professional accountant might face pressure that ~~could~~ creates threats, to compliance with the fundamental principles, for example intimidation threats, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:

Commented [IESBA88]: 370.2

- Within the organization, for example, from a colleague or superior.
- An external individual or organization such as a vendor, customer or lender.
- Internal or external targets and expectations.

~~270.4 A24~~ Examples of pressure that ~~might~~ could result in a breach threat to of compliance with the fundamental principles include:

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- 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.

See also Section 210 – *Conflicts of Interest*.

- Pressure to influence preparation or presentation of information:
 - Pressure to report misleading financial results to meet investor, analyst or lender expectations.

- 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 approve or process expenditures that are not legitimate business expenses.
- Pressure to suppress internal audit reports containing adverse findings.

See also Section 220 – Preparation and Presentation of Information.

- Pressure to act without sufficient expertise or due care:
 - ~~Inappropriate p~~Pressure from superiors to ~~inappropriately~~ reduce the extent of work performed.
 - Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

See also Section 230 – Acting with Sufficient Expertise.

- Pressure related to financial interests:
 - Pressure to manipulate performance indicators from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements.

See also Section 240 – Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making.

- Pressure related to inducements:
 - Pressure from others, either internal or external to the organization, to offer inducements to influence inappropriately 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.

See also Section 250 - Inducements.

- Pressure related to non-compliance with laws and regulations:
 - Pressure to structure a transaction to evade tax.

See also Section 315 – Responding to Non-Compliance with Laws and Regulations.

270.4 A32 Factors that are relevant important in evaluating the level of threats created by whether the pressure from others could result in a breach of the fundamental principles, include:

- The intent of the individual who is exerting the pressure and the nature and significance of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.

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- The culture and leadership of the employing organization including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that employees will act ethically. For example, a corporate culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a ~~breach~~threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the employing organization has established, such as ethics or human resources policies that address pressure.

~~270.4 A4~~ In considering these and other factors the accountant may ~~c~~Consultation with:

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- A colleague, superior, human resources personnel, or another professional accountant;
- Relevant professional or regulatory bodies or industry associations; or
- Legal counsel

might assist the professional accountant understand the factors that are relevant in evaluating the level of the threat.

The ~~fundamental~~ principle of confidentiality applies in communications with external parties.

~~270.4 A53~~ Discussions and consultations with others about the circumstances creating the pressure might assist the professional accountant to evaluate the level of the threat. These might include: if the professional accountant determines that the pressure from others would result in a breach of the fundamental principles the accountant might consider actions, including:

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- A ~~D~~iscussion ~~g~~ about the matter with the individual who is exerting the pressure to seek to resolve the matter.
- A ~~D~~iscussion ~~g~~ about the matter with the professional accountant's supervisor, if the supervisor is not the individual exerting the pressure.
- An ~~E~~scalation ~~g~~ of the matter within the employing organization, for example with:

- Higher levels of management;
- Internal or external auditors; or
- Those charged with governance;

And, when appropriate, explaining any consequential risks to the organization.

- A ~~D~~isclosure ~~ing~~ about the matter in line with the organization's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- A ~~C~~onsulting ~~consultation~~ with legal counsel about the specific matter.

~~270.4 A3-270.4 A6~~ An action that might address a threat created by pressure is the professional accountant's rRequesting for a restructuring of, or segregation of, of, certain responsibilities and duties so that the accountant is no longer involved with the individual or entity exerting the pressure. This would ~~might~~ be appropriate where doing so would ~~eliminate~~ address the threat created by the pressure to breach the fundamental principles. For example, if the ~~an~~ accountant is pressured in relation to a conflict of interest, the threat to compliance with the fundamental

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~~principle created by the pressure to breach the fundamental principles might be eliminated addressed when the accountant avoids being associated with the matter creating the conflict.~~

R270.5 If the professional accountant identifies and determines that the threat created by pressure is not at an acceptable level to breach the fundamental principles has not been eliminated, the accountant shall address that threat by:

Commented [IESBA94]: 370.6

~~(e)(a) Eliminating the circumstances, interests or relationships, that are creating the threats; including Consider-resigning from the employing organization;~~

~~(b) Applying safeguards, where available or capable of being applied; or~~

~~(b)(c) Declining or ending the specific professional activity, that would result in a breach of the fundamental principles~~

270.5 A1 The professional accountant is also encouraged to document:

Commented [IESBA95]: 370.6

- The facts.
- The communications.
- The courses of action considered.
- The parties with whom these matters were discussed.
- How the matter was addressed.

(a) *Proposal to Revise Definition of Professional Accountant in Business*

GLOSSARY

In the *International Code of Ethics for Professional Accountants (including International Independence Standards)*, the singular shall be construed as including the plural as well as the reverse, and the following expressions have the following meanings assigned to them.

In this Glossary, defined terms are shown in regular font; italics are used for terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms; references are also provided to terms described in the Code.

Professional accountant ...

Professional accountant in business A professional accountant ~~operating~~working in areas such ~~areas~~ as commerce, industry, service, the public sector, education, the not for profit sector or in regulatory or professional bodies, who might be ~~that is~~ an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer

Professional accountant in ...
public practice