Meeting: IESBA
Meeting Location: New York
Meeting Date: December 3-5, 2018

Agenda Item 6

Rollout of Revised and Restructured Code

I. Objectives

1. To receive an update on the initiatives aimed at promoting awareness of the recently released *International Code of Ethics for Professional Accountants (including International Independence Standards)* (“the Code” or “the revised and restructured Code”) and its adoption and implementation.

2. To obtain input on specific Working Group proposals aimed at promoting the key changes made to the Code.

II. Working Group (WG)

3. Members:
   - Kim Gibson, Chair, IESBA Member
   - Saadiya Adam, IESBA Technical Advisor
   - Brian A Caswell, IESBA Member
   - Reyaz Mihular, IESBA Member

III. Background

Release of the Code

4. The IESBA released the final pronouncement relating to the revised and restructured Code on April 9, 2018. In July 2018, the IESBA then released the revised inducements provisions which represent the last, but no less important piece of the revised and restructured Code.

5. The printed version of the 2018 edition of the IESBA Handbook contains the full text of the revised and restructured Code, including the revised inducements provisions. It is available for purchase on the IESBA website.

ECode

6. Coinciding with the effective date for the Code, Phase 1 of the e-Code will be finalized and launched in June 2019.1 See Agenda Item 7 for more information about the IESBA’s eCode initiative.

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1 The effective date for the 2018 edition of the IESBA Handbook does not override the effective dates for the July 2016 provisions relating *Non-Compliance with Laws and Regulations* (NOCLAR), and the January 2017 *Long Association* provisions which are drafted under the previous structure and drafting conventions. NOCLAR came into effect in July 2017 and the revised Long Association provisions come into effect in December 2018.
Purpose of the WG

7. Many stakeholders, in particular, firms, national standard setters (NSS), IFAC member bodies, and professional accountancy organizations (PAOs) suggested that the IESBA undertake activities to raise awareness of the changes to the Code. In response, immediately after approving the revised and restructured Code in December 2017, the IESBA established the Rollout WG.

8. The objective of the WG is to promote awareness of the changes to the Code in support of the Code’s adoption and implementation.

9. The WG notes that the IESBA does not have the power to mandate jurisdictions to adopt the Code. Notwithstanding, the WG believes that the IESBA’s contributions towards supporting adoption, e.g., by undertaking outreach activities that involve explaining the nature of, and rationale for the changes made to the Code cannot be overestimated.

10. The WG determined and IESBA agreed that the outreach program to “rollout” the Code would:
   - Include the development of tools and resources to establish and promulgate consistent messaging to explain the restructuring and substantive revisions made to the Code, as well as the rationale for those changes.
   - Target all stakeholder groups, including national standards setters (NSS), firms, preparers, IFAC Member Bodies, PAOs, regulators, academia.
   - Utilize all mediums of communication (e.g. in-person meetings, presentations at teleconferences, articles, video and audio interviews, webcasts, webinars and social media).
   - Involve all IESBA members, Technical Advisors and Staff as well as IFAC Committees (e.g., the Compliance Advisory Panel (CAP), the SMPC and the PAIB).
   - Involve external parties (e.g., firms, IFAC member bodies, and PAOs and educators).

11. Coordinating and supporting the IESBA’s outreach program so that it is focused on emphasizing the changes made to the Code is a key aspect of the WG’s activities. In determining how best to plan and execute this outreach program, a global communication strategy was developed, in partnership with the IFAC Communications team.

Summary of WG Activities To-date

12. Since the release of the Code in April 2018:
   - The IESBA revised and restructured Code webpage has been revamped. It is now essentially a one-stop-shop with a comprehensive set of resources and tools that explain the changes made to the Code, and the rationale for those changes. Those resources and tools include staff-prepared Bases for Conclusions, YouTube Videos, webinars, PowerPoint slides, articles, as well as a countdown clock to the date that the Code will come into effect.
   - IESBA representatives have participated in various outreach activities (see detail about locations, organizations and participants in Agenda Item 1-A). In addition to in-person meetings and presentations held with various stakeholders in Japan, Hong Kong, Malaysia, Indonesia, South Africa, Vietnam, Australia and New Zealand, some IESBA representatives provided interviews, authored or provided input on print and electronic articles in accountancy journals, or contributed to various print and electronic journals, including IFAC Gateway.
13. The WG’s current issues and proposals are discussed in Sections V and VI of this paper.

14. It is anticipated that the WG will cease its activities once the Code comes into effect in June 2019.

### Matter for IESBA Consideration

1. Do IESBA members agree with the purpose of the WG and the plans to cease activities after the Code comes into effect?

### IV. Towards Adoption of the Code

#### Responsibility for Adoption

15. The WG believes that IFAC is well positioned to affect the timely adoption of the 2018 Edition of the IESBA Handbook through the Forum of Firms (FOF) and IFAC member organizations.

   - As part of their membership obligations, members of the FOF commit to have policies and methodologies that conform to the IESBA Code and national codes of ethics.
   - IFAC member organizations have to fulfill specific IFAC requirements — Statements of Membership Obligations, which include adoption and implementation of ethics standards no less stringent than the IESBA Code.³

16. The WG exchanged views about what should be the IFAC’s role versus the IESBA’s role or the WG’s role. WG members believe that the most effective way to promote the adoption of the Code is to raise the public’s awareness of the revisions to Code and that the IESBA might be better positioned to begin that process.

17. With respect to adoption matters, it was pointed out that the IESBA and the IFAC should have influencing adoption of the Code as a common objective. From a practical perspective, it was suggested that the IESBA or the WG should formally refer certain topics/ specific suggestions that they believe that the IFAC should undertake in relation to adoption. Also, it was noted that a better understanding of the IFAC’s current plans to promote the adoption and implementation of the revised and restructured Code might help the WG better customize its own rollout plans (e.g., ensuring that important messages are reaching target audiences and key stakeholders).

### Status of Adoption

18. As a follow up to discussions held at the May 2018 IESBA NSS Liaison Meeting, the WG briefed the Board on the Status of NSS Plans to Adopt the Revised and Restructured Code (see Agenda Item 10-A for the June 2018 IESBA meeting). The WG plans to have a follow-up session with the NSS in May 2019 NSS meeting and the WG Chair will brief the Board at the June 2019 IESBA meeting.

19. As of November 19, 2018, the WG notes that Australia, South Africa and Zimbabwe have completed their jurisdictional due process for adopting the 2018 Edition of the IESBA Code. It is noted that

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2 The FOF is an independent association of international networks of firms that perform transnational audits. The objective of the FOF is to promote consistent and high-quality standards of financial reporting and auditing practices worldwide—bringing together firms that perform transnational audits and involving them more closely with IFAC’s activities in audit and other assurance-related areas.

3 In March 2018, the IESBA was briefed on the IFAC’s International Standards: 2017 Global Status Report which explained the role that IFAC member organizations play in the adoption process and the status of adoption as of December 2017.
others, including Hong Kong, Japan and New Zealand will follow shortly.

V. Issues

Topics and Timing for Staff Publications

20. In June 2018, the WG discussed with the board that it would oversee the development of Staff Publications to highlight key changes made to the Code. Staff Publications highlight, illustrate or explain aspects of the revised and restructured Code and do not amend or override the material that is already included in the Code, the text of which alone is authoritative. Staff Publication, such as Staff Q&As and FAQs are not a substitute for reading the Code and do not constitute an authoritative or official pronouncement of the IESBA. The Board typically provides input on those publications, but does not officially approve them.

21. In September 2018 the WG met in person and among other matters considered potential topics for the development of those Staff Publications.

22. After extensive discussion, the WG determined that there is merit to exploring an alternate approach to the typical Q&As. The WG agreed that it is important to develop and promulgate material that would entice stakeholders to read, study and better understand the Code, in particular the aspects of the Code that are new or have substantively changed (e.g., the conceptual framework and sections that deal with pressure, preparing and presenting information, NOCLAR, long association and inducements/ gifts and hospitality). The following matters were considered in forming this view:

- Some stakeholders note that a key barrier to adoption of the Code is a lack of awareness of its content, negative perceptions about certain topics covered in the Code, in particular, with respect to auditor independence, and lack of clarity about the provisions in the Code that should be applied.

- Developing concise, easy-to-digest, visually appealing interactive material might be a more impactful way to highlight the changes in the Code and also remind users about key concepts that might have not been properly understood in the past (e.g., the conceptual framework).

- The resources may be more accessible to readers if they tell relatable stories using real-life scenarios to illustrate key aspects of the Code. It was suggested that this material may take the form of short articles, infographics, webinars/webcasts, memes, and short videos or audio clips.

- It may be too early to determine which questions or issues might warrant further emphasis or explanation in a Staff FAQs and Q&As. Some WG members pointed out that many jurisdictions are in the initial stages of adoption and suggested that the topics to be covered in Staff Publications could be informed by NSS input if their development were to be deferred.

- There is a risk that releasing the traditional “FAQs” and “Staff Q&As” documents into the market place in advance of the effective date of the Code may distract readers from studying the actual provisions in the Code, and the related rationale for the changes in the accompanying five Bases for Conclusions.

- Questions were raised about staff and Board capacity in light of the IESBA’s pre-commitments and expanded outreach program.
Facilitating NSS Collaboration

23. The WG noted that some NSS and PAOs are keen on determining how best to collaborate and exchange ideas about adoption and implementation issues that impact their respective jurisdictions (e.g., how best to overcome translation issues). The WG believes that the IESBA or IFAC may be well positioned to establish and promote a forum for NSS and PAOs to interact and share ideas.

VI. WG Proposals

Webinars, Webcasts and Social Media

24. The WG believes that the IESBA’s brand is enhanced when IESBA members and TAs engage with its stakeholders, directly and often. The WG believes that a cost-effective way to do so is to use the deck of slides about the revised and restructured Code to host more webinars/webcasts by IESBA members and TAs at times that are convenient for stakeholders participating in different time zones.

25. It was also suggested that social media would be a creative way to stimulate stakeholder conversations about the changes made to the Code.

Short Publication Series about the Code

26. Noting that a key barrier to the adoption of the Code is a lack of awareness of its content and how it should be used, the WG determined that it is important to consider innovative ways to leverage existing material that already summarizes the changes to the Code to effectively reach a broader audience, in particular the future generation of professional accountants.

27. Accordingly, the WG recommends that a suitably titled Short Publication Series should be launched to highlight the changes made to the Code. The Series would include short topic-specific materials that are more visual engaging and would incorporate a “story telling” approach that would resonate with all stakeholders, including NSS, PAOs, PAIBs, TCWG, regulators and academics.

28. The WG proposes that the Series be titled, “Decoding the Code of Ethics.”

Authors

29. The WG identified a few individuals to author the initial episodes for the Series, including Accounting Education Expert, Ms. Laura Friedrich, IESBA Member, Mr. Brian Friedrich and IESBA TA, Dr. Ian Hutchinson. The Appendix to this paper illustrates the four episodes.

30. The WG believes that additional articles should be authored by IESBA members, Technical Advisors (TAs) and other “friends of IESBA”, including members of the IESBA Consultative Advisory Group (CAG), representatives of the NSS, IFAC members, IESBA TAs, IESBA Staff, and former IESBA members (in particular former Task Force Chairs). Some WG members suggested that external parties should also be approached to help author the Series.

Timing and Review

31. Each episode in the Series would be linked and would be short and easy to read (i.e., estimated reading time of 3-5 minutes each).

32. The WG recommends that each episode should be reviewed by the IESBA Staff and cleared for release by the WG. IESBA Staff will work closely with IFAC Communications to develop a suitable design and layout.
33. It is envisioned that the Series would be released approximately semi-monthly or monthly.

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<td>2. Do IESBA members agree with the WG’s proposals, including its proposal to launch a Short Publication Series about the Code?</td>
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<td>3. IESBA members are asked for views and suggestions about any other matters that might help promote adoption of the Code.</td>
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Illustrative Episodes for the Proposed “Decoding the Code of Ethics” Series

Episode #1: The Fundamental Principles

Imagine this – you’re the VP Finance of a pharmaceutical company and the marketing team has a policy of setting prices for patent-protected life-saving drugs that could be seen as taking advantage of the desperation of patients. Or you’re the CFO of a manufacturing company trying to break into an overseas market, and the CEO just laid out an aggressive business proposal that appears to technically keep the company on-side of bribery and corruption laws, but just barely. Or maybe you’re an auditor, and a prestigious client lets you know subtly that you could have a lucrative career with them in the future, but you know that the opportunity might evaporate if you disagree with them during the audit.

As professional accountants, we’re often faced with situations that aren’t black and white. As part of our decision-making, company policies and professional rules are important to refer to, but they only tell part of the story. To make sure we get the important decisions right, we need to take it up a level, and consider the Fundamental Principles:

- **Integrity** – would your company’s pharmaceutical pricing be seen as straightforward and honest business dealings?
- **Professional Competence and Due Care** – are you sure you’ve done enough to understand the anti-bribery and corruption legislation to keep the company on-side?
- **Objectivity** – will your audit conclusions be biased by the conflict of interest resulting from the lure of that lucrative job?
- **Confidentiality** – if your company were to undertake actions that cross the line into illegal or unethical, can and should you tell someone?
- **Professional Behavior** – will your actions and decisions risk discrediting the profession?

The principles-based nature of the IESBA Code provides guidance for professional accountants in every situation. Even if there is no Requirement that is directly applicable to the decision, the Principles outline the expected standard of behavior, recognizing our public interest responsibility.

The Fundamentals Principles are found in Section 110 of the Code. Not sure how to use the Principles in decision making? Stay tuned for the next episode of Decoding the Code of Ethics, where we’ll explore the Conceptual Framework.

Episode #2: The Conceptual Framework: Identifying threats to compliance with the Fundamental Principles

In the previous episode, we introduced the Code of Ethics’ “Fundamental Principles” of Integrity, Professional Competence and Due Care, Objectivity, Confidentiality, and Professional Behavior. Although these principles are easy to describe, the Code recognizes that a professional accountant’s ability to apply them can be threatened. Importantly, the Code’s “Conceptual Framework” provides guidance in this regard including approaches for:

(a) identifying threats to compliance with the Fundamental Principles;

(b) evaluating the identified threats; and
(c) addressing the threats by eliminating or reducing them to an acceptable level.

These threats to compliance can be categorized as: Self-interest, Self-review, Advocacy, Familiarity, and Intimidation.

To illustrate how the Conceptual Framework is applied to identify, evaluate, and address threats to compliance, let's revisit and build on one of the examples from the previous episode:

Imagine that you’re the CFO of a manufacturing company trying to break into an overseas market, and the CEO just laid out an aggressive business proposal that appears to technically keep the company on-side of anti-bribery and anti-corruption laws, but just barely. The timing might be perfect because the company recently lost an important group of customers and you’re worried that if corporate performance doesn’t improve soon, staff will start to be laid off. If the CEO’s plan works, however, not only will layoffs be avoided, but the company will significantly increase profitability, which would result in bonuses for all staff. The CEO asks you for your opinion of her proposal, but stresses that a decision needs to be made quickly, before the opportunity evaporates.

How do you ensure that you’re meeting your responsibility to act in the public interest? To begin, let’s apply the first step in the Conceptual Framework by identifying threats to compliance.

Threat identification requires a professional accountant to ask themselves questions in each of the categories of threats such as:

- **Self-interest** – What’s in it for me, and how could that impact my decision-making?
- **Self-review** – Am I reviewing my own work or one or more of my previous decisions?
- **Advocacy** – Am I tempted to promote the CEO’s position beyond what would be reasonably justified?
- **Familiarity** – Am I motivated to agree with the CEO because of our close working relationship, or because I want to avoid layoffs of employees I’m friends with?
- **Intimidation** – Do I fear retaliation if I disagree with the CEO? Is there undue time pressure?

Applying professional judgement to the facts in the example situation could result in several threats to compliance being identified. There is a self-interest threat to objectivity related to the potential bonus, in addition to broader job impacts. Similarly, objectivity might be threatened by the familiarity with the company and its employees, and the desire to avoid layoffs. An intimidation threat might also result from the time pressure, which could impact the ability to exercise due care and professional competence.

Once threats have been identified, the Conceptual Framework requires the professional accountant to apply professional judgement and perform an unbiased evaluation of the situation. But when it’s our own behavior and decision-making that we’re evaluating, objectivity is inherently threatened. To address this, the Code requires the use of the Reasonable and Informed Third Party test, to ensure our evaluation is done from an impartial perspective.

*The Conceptual Framework, which forms Section 120 of the Code, includes exercising professional judgment and the use of the Reasonable and Informed Third Party test. We’ll apply this test in the next episode of Decoding the Code of Ethics: Applying the Reasonable and Informed Third Party Test.*
Episode #3: Applying the Reasonable and Informed Third Party Test

In Episode #2, we considered how a professional accountant’s compliance with the Code’s “Fundamental Principles” is threatened, and what to do if this occurs. More specifically we reviewed:

- The requirements of the Code’s “Conceptual Framework”;
- Guidance for identifying threats to compliance;
- The requirements to evaluate and address threats to compliance;
- The need to apply professional judgement to ensure an unbiased evaluation of the situation; and
- The challenges to objectivity associated with evaluating our own behavior and decision-making.

Let’s return to the example situation from Episode #2:

Imagine that you’re the CFO of a manufacturing company trying to break into an overseas market, and the CEO just laid out an aggressive business proposal that appears to technically keep the company on-side of anti-bribery and anti-corruption laws, but just barely. The timing might be perfect because the company recently lost an important group of customers and you’re worried that if corporate performance doesn’t improve soon, staff will start to be laid off. If the CEO’s plan works, however, not only will layoffs be avoided, but the company will significantly increase profitability, which would result in bonuses for all staff. The CEO asks you for your opinion of her proposal, but stresses that a decision needs to be made quickly, before the opportunity evaporates.

Applying professional judgement to this situation, we identified several threats to compliance. The first threat we identified was a self-interest threat to objectivity related to a potential bonus.

To illustrate the evaluation of threats, let’s consider how the self-interest threat might, in the absence of using the “Reasonable and Informed Third Party Test”, inappropriately be determined to be at an acceptable level. And let us take careful note of how the evaluation of the self-interest threat changes from acceptable to unacceptable when the “Reasonable and Informed Third Party Test” is applied.

Without the use of the “Reasonable and Informed Third Party Test,” a professional accountant might determine the identified threat to objectivity to already be at an acceptable level by way of rationalizing the situation as follows:

While the business proposal is aggressive, it’s ‘on-side’ – even if it is just ‘on-side’ – of anti-bribery and anti-corruption regulations. Also, the CEO’s proposed plan will impact bonuses the same as any other of the company’s lines of business. Bonuses are always based on performance, and we use bonuses as part of compensation all the time, so why would this be any different? Any threat to objectivity is at an acceptable level, and there’s nothing further I need to do.

Now consider the use of the “Reasonable and Informed Third Party Test.” Paragraph 120.5 A4 of the Code requires the professional accountant to evaluate the threat “from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances the accountant knows, or could reasonably be expected to know, at the time the conclusions are made.” A reasonable and informed third party would appreciate the fact that the bonus structure of the company dictates “bonuses based on performance,” but that same third party would also be aware of, and weigh carefully, the nature of the business proposal and how closely it comes to contravening anti-bribery and anti-corruption laws. Think about what would happen if circumstances surrounding the business proposal were tested in the press (or the courts), and it was determined that the company was seen to – or actually did – contravene
the law. Without evidence to the contrary, the professional accountant would appear not to have complied with the Code, as they would not have taken adequate steps to address the self-interest threat to objectivity. It might be claimed that they did not address the threat because of the potential for a lucrative bonus associated with implementing the CEO’s proposal.

Thus, using the “Reasonable and Informed Third Party Test,” a professional accountant should conclude that the self-interest threat is presently not at an acceptable level. At that point, the professional accountant needs to determine and implement actions to reduce this and other unacceptable threats to an acceptable level. Answering the question of “What constitutes an acceptable level?” is our focus in Episode 4.

The “Reasonable and Informed Third Party” test, contained in Section 120 of the Code, is an important element of applying the Conceptual Framework and helps ensure that professional accountants take an appropriate perspective when identifying, evaluating, and addressing threats to compliance with the Fundamental Principles.

**Episode #4: Addressing Threats to Compliance with the Fundamental Principles**

In Episode #2, we identified threats to compliance with the Fundamental Principles. Recall the scenario we’ve been discussing:

Imagine that you’re the CFO of a manufacturing company trying to break into an overseas market, and the CEO just laid out an aggressive business proposal that appears to technically keep the company on-side of anti-bribery and anti-corruption laws, but just barely. The timing might be perfect because the company recently lost an important group of customers and you’re worried that if corporate performance doesn’t improve soon, staff will start to be laid off. If the CEO’s plan works, however, not only will layoffs be avoided, but the company will significantly increase profitability, which would result in bonuses for all staff. The CEO asks you for your opinion of her proposal, but stresses that a decision needs to be made quickly, before the opportunity evaporates.

In Episode 3, we illustrated how to evaluate the identified threats to compliance using the Reasonable and Informed Third Party test, as required by the Conceptual Framework. We discussed that the requirement was to ensure that the threats to compliance were reduced “to an acceptable level”. But what does that mean?

According to paragraph 120.7 A1 of the Code, “an acceptable level is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.”

Let’s revisit the threats that were identified in the scenario, and see what an acceptable level might look like.

Applying professional judgement to the situation, we would systematically consider each threat using the perspective of the Reasonable and Informed Third Party test.

- **Self-review** – As there is no evidence of issues in the scenario that relate to this threat, a reasonable and informed third party would likely conclude this threat is at an acceptable level.
- **Advocacy** – Given that the CFO is not publicly defending the company’s position to an outside party, this threat is also not a significant concern at this point.
• Self-interest – As identified in Episode 3, threats to objectivity exist in relation to the CFO’s own bonus and career with the company. Without any mitigating action, a reasonable and informed third party would likely conclude this threat is not at an acceptable level.

• Familiarity – A reasonable and informed third party is likely to perceive the CFO’s close working relationship with colleagues and staff who may be laid off as being a threat to objectivity that is not at an acceptable level.

• Intimidation – There are potential concerns around the CFO’s ability to effectively demonstrate competence and due care resulting from the significant time pressure suggested by the CEO. A reasonable and informed third party might well see this threat as presently not at an acceptable level.

For the three threats not at an acceptable level, the Code – in paragraph 120.10 – requires the CFO to take action by eliminating or reducing those threats to an acceptable level. Sub-paragraph (b) states that applying safeguards is one way that threats might be reduced. Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to an acceptable level.

This means that the CFO would determine and proceed with the actions necessary to reduce the threats until they reach the point where a reasonable and informed third party would likely conclude that the Fundamental Principles are now being complied with. In this situation, that would be the point where the third party would say “Yes, I think the professional accountant is now acting in a manner that demonstrates objectivity, professional competence, and due care”.

For example, to reduce the threats in this scenario, the CFO might, through the company, engage the services of independent legal counsel with respect to the legality of the planned business activity and gain more comfort over that aspect of the proposal. If this can be done concurrent with the business analysis, it could alleviate some of the time pressure for their work, thereby reducing the intimidation threat. Bringing in external expertise also adds objectivity, and gives the CFO an anchor against which to form and defend a recommendation. This mitigates the self-interest and familiarity threats.

If independent counsel were conferred with, and if the CFO acted in alignment with the lawyer’s guidance, a reasonable and informed third party would likely conclude that objectivity, professional competence, and due care are being complied with.

Guidance on evaluating threats and determining what is an acceptable level of threat is found in Section 120 of the Code. Join us again for the next episode of Decoding the Code of Ethics, where we’ll explore how Professional Accountants in Business can navigate the challenges resulting from inducements.