

FCG – Revised Draft Principles – Incentives and Disincentives

Public Interest Rationale

1. Incentives and disincentives help encourage enduring ethical behavior and the long-term sustainability of an accounting firm (“firm”), strengthening its ethical culture and underscoring its commitment to ethical values and the public interest.
2. Designing and implementing incentives and disincentives that recognize, support and promote ethical behavior, and establish clear consequences for unethical behavior, signal to all partners and staff the importance of ethical values. They also act as motivating factors to achieve the expected ethical behavior and set up a “standback” mindset, reducing the risk of unethical behavior.

Incentives Aligned with Ethical Behavior

3. Incentives that promote and recognize ethical behavior reinforce a firm’s expectations on all partners and staff to act in accordance with the firm’s ethical values and the public interest.
4. Rewarding outstanding ethical behavior (such as proactively promoting the importance of ethical behavior) by partners and staff, whether through compensation, promotion or other incentives, reinforces the firm’s commitment to ethical values and contributes to the development of ethical leaders.
5. Factoring an individual’s ethical performance, such as standing their ground when confronted with difficult situations, into promotion decisions helps firms select individuals with the right ethical values and mindset for leadership positions.

Disincentives

6. Implementing disincentives reinforces the importance of acting ethically and promotes accountability.
7. Regularly communicating the consequences of unethical behavior helps deter behaviors that fail to meet the firm’s ethical values and expectations.
8. Responding to unethical behavior in a timely, decisive, and fair manner demonstrates to internal and external stakeholders that senior leadership prioritizes ethical behavior as a key performance measure and a strategic objective. This, in turn, contributes to building public trust in the firm.
9. The manner in which firms apply disincentives will depend on factors such as the nature of the unethical behavior, including its severity and frequency of occurrence, and the roles of the offending partners or staff.
10. Hiring policies and procedures that enable a firm to avoid recruiting individuals with known records of ethical behavior from other firms or organizations reinforce the firm’s commitment to ethical values and protect its ethical culture.