

The Latest Changes to the Ethics Code and How They Affect PAIB

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Agenda

- The Revised and Restructured Code
 - Overview and architecture
 - Substantive revisions
- Part 2 of the Code - PAIB
- Substantive Revisions
- Effective Date

The Revised and Restructured Code (“New Code”)

- New design – easier to navigate, use and enforce
 - Completely rewritten
 - Requirements clearly distinguished from application material
 - New user guide and updated glossary
- Increased focus on compliance with the fundamental principles (FPs) and independence as overarching requirements
- Enhanced conceptual framework (CF)
 - Clearer and more robust safeguards
 - More tightly integrated into relevant sections of the Code

About the New Code

What is Included

- Substantive revisions include
 - Major changes to foundations (Enhanced Conceptual Framework, Safeguards) and architecture
 - Enhanced requirements and guidance for PAIBs
 - Robust upgrades (NOCLAR, Inducements, Long Association)
 - Enhanced guidance (Professional Skepticism and Professional Judgment)

About the New Code Architecture

PART 1

Complying with the Code, Fundamental Principles and Conceptual Framework

(Sections 100 to 199)

(All Professional Accountants)

PART 2

Professional Accountants in Business (PAIBs)

(Sections 200 to 299)

(Part 2 is also applicable to individuals PAPPs when performing professional activities pursuant to their relationship with the firm)

PART 3

Professional Accountants in Public Practice (PAPPs)

(Sections 300 to 399)

PARTS 4A & 4B

International Independence Standards

Part 4A—Independence for Audits & Reviews

(Sections 400 to 899)

Part 4B—Independence for Assurance Engagements Other than Audit & Review Engagements

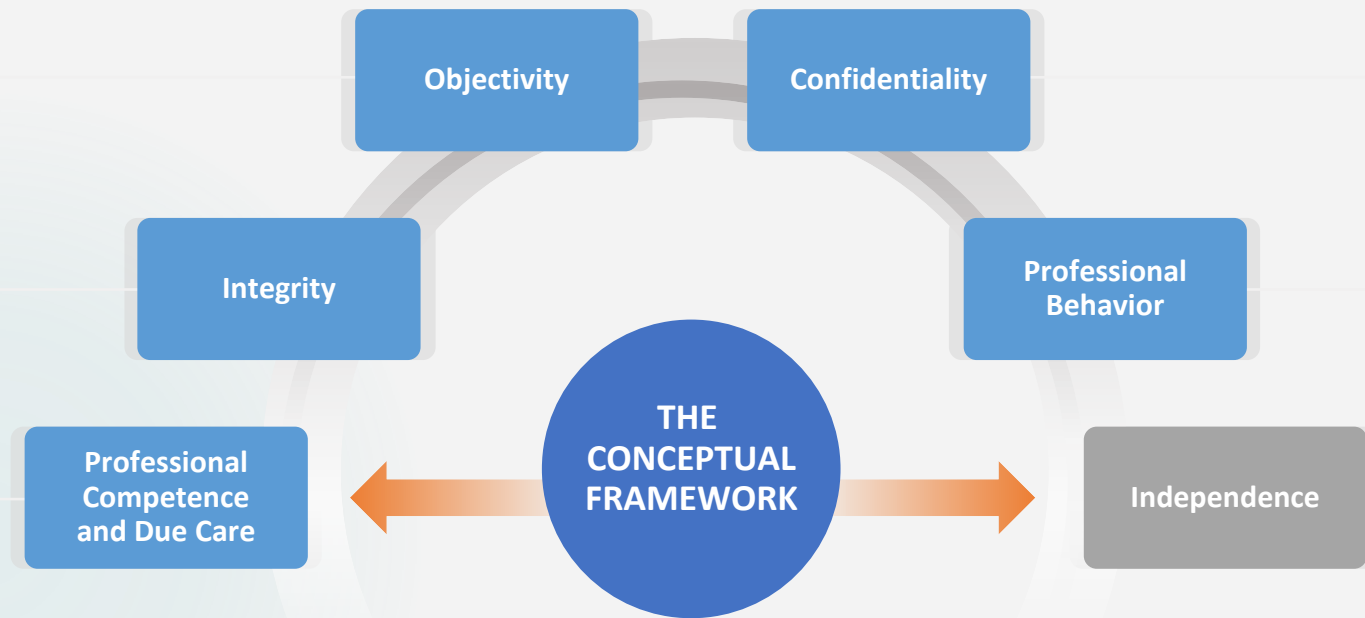
(Sections 900 to 999)

GLOSSARY

(All Professional Accountants)

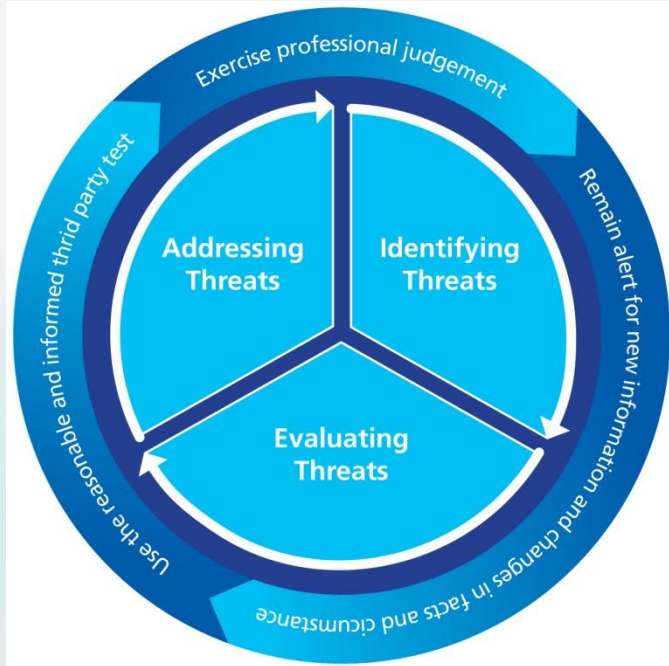
About the New Code Fundamental Principles, Conceptual Framework and Independence

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About the New Code

The Enhanced Conceptual Framework



- What is it?
 - Dedicated provisions (Section 120) that apply to all PAs, in all circumstances, when dealing with ethics and independence issues
- Why have a conceptual framework?
 - Because establishing an exhaustive list of facts and circumstances that might trigger ethics and independence issues is impracticable

Key Enhancements to Conceptual Framework

- Identified threats that are not at acceptable level must be addressed in one of three ways:
 - Eliminate circumstances creating the threats;
 - Apply safeguards; or
 - Decline or end the specific professional activity/service
- Safeguards and other key concepts clarified
 - Safeguards now more closely correlated to identified threats
- Emphasis that if threats cannot be addressed, PA must decline or end the specific professional activity
- New requirement for PA to “step back” in forming overall conclusion

Part 2

PAIB

- Applying the CF-PAIB
- Conflicts of Interest
- Preparation and Presentation of Information (revised)
- Acting with Sufficient Expertise
- Financial Interests, Compensation and Incentives
Linked to Financial Reporting and Decision Making
- NOCLAR (new)
- Pressure to Breach the FPs (new)
- Inducement (revised)

Other Substantive Revisions - PAIBs

NOCLAR

- Provides a framework to guide professional accountants (PAs) in deciding how best to act *in the public interest* when they become aware of NOCLAR or suspected NOCLAR
- Major contribution to the public interest
 - Extant version already effective since July 15, 2017
 - Restructured version (Sections 260 and 360) will be effective with restructured Code

NOCLAR Response Framework

Objectives – All Professional Accountants

- Comply with fundamental principles of integrity and professional behavior
- Through alerting management/those charged with governance, seek to:
 - Enable them to rectify, remediate or mitigate consequences of NOCLAR; or
 - Deter commission of NOCLAR
- Take such further action as may be appropriate in the public interest

Other Substantive Revisions - PAIBs

Preparation and Presentation of Information

- (Revised) Section 220, *Preparing and Presentation of Information*
 - More comprehensive provisions addressing PAIBs' responsibilities when preparing or presenting information
 - Prohibition on exercising discretion when preparing or presenting information with intent to mislead or inappropriately influence contractual or regulatory outcomes
 - Enhanced guidance to assist PAs in disassociating from misleading information

Other Substantive Revisions - PAIBs

Pressure to Breach Fundamental Principles

- (New) Section 270, *Pressure to Breach the Fundamental Principles*
 - Prohibition on allowing pressure from others to result in a breach of fundamental principles
 - Prohibition on placing pressure on others that would lead them to breach fundamental principles
 - Guidance to assist in navigating situations involving pressure

Pressure to Breach FPs

Examples of Situations when Pressure Might Arise

- Practical examples included in the Code to illustrate situations in which PAs may experience pressure to breach the FPs (para 270.3 A2)
 - Conflicts of interest
 - Influence preparation or presentation of information
 - Act without sufficient expertise or due care
 - Financial interests
 - Inducements
 - Non-compliance with laws and regulations

Other Substantive Revisions – PAIBs and PAPPs

Inducements, Including Gifts and Hospitality

Revised provisions for
PAIBs
(Section 250)

Revised provisions for
PAPPs
(Section 340)

Conforming amendments to International
Independence Standards re gifts and hospitality
(Sections 420 and 906)

Inducements

A New Comprehensive Framework

- New framework to guide the behavior and actions of all PAs in situations involving inducements
- Prohibits offering or accepting of inducements where there is actual or perceived intent to improperly influence behavior
- Other revisions include:
 - Clearer meaning of what constitutes an inducement
 - New guidance to help PAs apply CF where there is no improper intent
 - Enhanced guidance for PAs' immediate or close family members

Revised and Restructured Code Effective Date

- New Code (including safeguards-related changes)
 - Parts 1, 2 and 3: June 15, 2019
 - Part 4A: audits and reviews of financial statements for periods beginning \geq June 15, 2019
 - Part 4B: for assurance engagements with respect to subject matter covering periods: periods beginning \geq June 15, 2019; otherwise June 15, 2019
- Above does not override effective dates of [NOCLAR](#) and [Long Association](#) provisions
 - Drafted under current structure and drafting conventions