

Agenda Item 2-F

Preface and Guide to the Code

PREFACE

Note to Member Bodies and Firms

The IESBA develops and issues, under its own standard setting authority, the *Code of Ethics for Professional Accountants* (the Code) for use by professional accountants around the world.

A member body of IFAC or firm shall not apply less stringent standards than those stated in this Code. However, if a member body or firm is prohibited from complying with certain parts of this Code by law or regulation, they shall comply with all other parts of this Code.

Some jurisdictions may have requirements and guidance that differ from those contained in this Code. Professional accountants in those jurisdictions need to be aware of those differences and comply with the more stringent requirements and guidance unless prohibited by law or regulation. In addition, professional accountants, where applicable, should comply with the ethical requirements of any relevant authority which may regulate them, their clients or employing organization. For example, a professional accountant who performs an audit for a listed entity, may be subject to additional independence and ethical requirements established by a relevant securities regulator.

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GUIDE TO THE CODE

Purpose of this Code

1. This Code sets out internationally appropriate standards. It contains the fundamental principles of ethics for professional accountants. These reflect the profession's recognition of its public interest responsibilities. They establish the foundation for ethical conduct and guide the professional accountant in the performance of professional activities.
2. The Code provides a conceptual framework that professional accountants are to apply in order to identify threats to compliance with the fundamental principles. The conceptual framework is also used to evaluate the significance of the threats identified and apply safeguards to eliminate or reduce the threats to an acceptable level. In certain circumstances no safeguards will be available to reduce the threats to an acceptable level, so the professional accountant needs to take action accordingly for example, by ending the interest or relationship creating the threat to compliance with the fundamental principles.

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How this Code is Structured

3. The Code contains three parts:
 - Part A – *General Application of the Code*, is applicable to all professional accountants.
 - Part B – *Professional Accountants in Business*, is applicable to professional accountants in business which include professional accountants employed or engaged in an executive or non-executive capacity in such areas as:
 - Commerce, industry, or service;
 - The public sector;

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- Education;
- The not for profit sector;
- Regulatory bodies or professional bodies; or
- A professional accountant contracted by such entities.

Professional accountants in public practice may also find Part B relevant to their particular circumstances.

- Part C – *Professional Accountants in Public Practice*, is applicable to professional accountants in a firm that provides professional services and the firms in which they practice. Part C includes general requirements and also includes:

- C1 – *Independence for Audit and Review Engagements*, applicable to professional accountants in public practice who perform audits and reviews.
- C2 – *Independence in Relation to Other Assurance Engagements*, applicable to professional accountants in public practice who provide assurance services other than audits or reviews.

Each part of the Code contains sections which introduce a new topic. Sections may have subsections dealing with specific aspects of the topic.

4. The content within each of the sections of the Code is, where appropriate, structured as follows

- Scope – sets out the subject matter addressed within the Section.
- Introduction – introduces the requirements and application material in the context of the conceptual framework.
- Requirements:
 - Emphasize the need to apply the conceptual framework in order to comply with the fundamental principles; or
 - Set out the application of the conceptual framework to the subject matter addressed, including any specific prohibitions that may arise.
- Application material – provide guidance to assist in complying with the requirements.

How to Use This Code

5. The Code applies to all professional accountants in the performance of professional activities. It requires compliance with the fundamental principles of professional ethics.
6. The use of the word “shall” in this Code imposes a requirement on the professional accountant or firm to comply with the specific provision in which “shall” has been used. Compliance is required unless an exception is permitted by this Code. Requirements are designated with an “R”.
7. In addition to requirements, the Code contains introductory and application material, and a glossary, that provide context relevant to a proper understanding of the Code. In particular this material explains more precisely what a requirement means or is intended to cover and includes examples of relevant facts and circumstances. While such material does not of itself impose a requirement, it is relevant to the proper application of the requirements of the Code. The entire text of the Code,

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therefore, is relevant to understanding and proper application of the Code's requirements. Application material is designated with an "A".

8. Application material that contains the phrases "generally necessary," "recommended" or "encouraged," indicates that the professional accountant should use professional judgment in considering when the application material is appropriate for implementation.
9. A professional accountant may be faced with an ethical dilemma that presents a challenge to compliance with the fundamental principles. Material related to addressing such an ethical dilemma is included as Appendix 1.
10. Non-authoritative guidance is available on the IESBA website (www.ethicboard.org) to assist in understanding and applying the Code.

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Appendix 1

Addressing Ethical Dilemmas

1. An ethical dilemma presents a challenge to compliance with the fundamental principles. Taking appropriate measures to resolve the dilemma assists a professional accountant to address such a challenge so as to remain in compliance with the fundamental principles.
2. Appropriate measures to address an ethical dilemma might include:
 - (a) Considering the consequences of each possible course of action;
 - (b) Determining the appropriate course of action;
 - (c) If the matter involves a conflict with, or within, an organization, determining whether to consult with those charged with governance of the organization; and
 - (d) If, after exhausting all relevant possibilities, the ethical dilemma is unresolved:
 - (i) Refusing to remain associated with the matter creating the dilemma where possible; and
 - (ii) Determining whether in the circumstances it is appropriate to withdraw from the engagement team or specific assignment or resign from the engagement, the firm or the employing organization.
3. The following factors, individually or with others, may be relevant to the resolution process:
 - (a) Relevant facts.
 - (b) Ethical issues involved including the fundamental principles.
 - (c) Established internal procedures.
 - (d) Consulting other appropriate people within the firm or employing organization.
 - (e) Alternative courses of action.
4. It is usually in the best interests of the professional accountant to document the substance of the issue, the details of any discussions held, and the decisions made.
5. When a professional accountant encounters unusual circumstances in which the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest, it is recommended that the professional accountant consult with a member body or the relevant regulator.
6. If a significant dilemma cannot be resolved, advice from the professional body or from legal advisors is likely to be helpful. The professional accountant can generally obtain guidance on ethical issues without breaching the fundamental principle of confidentiality by discussing the matter: with the professional body on an anonymous basis; or with a legal advisor under the protection of legal privilege.
7. Instances in which the professional accountant may consider obtaining legal advice vary. For example, a professional accountant may have encountered a fraud, the reporting of which could breach the professional accountant's responsibility to respect confidentiality. Obtaining legal advice in that instance will assist in determining whether there is a requirement to report.

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Appendix 2

Structure of the Parts of this Code

