Revised AICPA Code of Professional Conduct

Analyzing the Ethical Responsibilities for Members in Public Practice and Members in Business

By Steven M. Mintz

On June 1, 2014, the AICPA issued a codification of the principles, rules, interpretations, and rulings in the AICPA Code of Professional Conduct that specify which ethics provisions apply to members in public practice, members in business, and other members. A major improvement of the revised code is the creation of three sections for members in different areas of practice, to assist accounting professionals in each group to determine whether they are in violation of any of the rules of conduct. The revised code also provides clearer guidance on the application of the rules to fact situations because it incorporates the ethics rules, interpretations of the rules, and ethics rulings that pertain to specific areas of the code in one place rather than having to search out the relevant pronouncements throughout the code. The revised code is effective on December 15, 2014, except for the “Conceptual Framework for Members in Public Practice” and the “Conceptual Framework...
for Members in Business,” which become effective on December 15, 2015, with early adoption permitted.

This article describes the process to be followed by CPAs in both public practice and business to evaluate whether conflicts exist that make it difficult to comply with the rules of conduct and interpretations, as well as relevant laws and regulations. It provides guidance to CPAs in determining whether ethical conflicts can be resolved through consultation with the appropriate persons in the employing organization (members in business) or the firm (members in public practice).

The revised code creates an organized structure that facilitates the application of code provisions to particular fact situations in a way that enhances awareness of ethical obligations and the steps needed to ensure compliance.

**New Features**

A significant improvement in the revised code is the new section on “Ethical Conflicts” that arise from obstacles to following the appropriate course of action due to internal or external pressures or conflicts in applying relevant professional standards or legal standards. The ethical conflicts provision is used in combination with the conceptual framework to determine whether specific rules of conduct have been violated. This provision is effective on December 15, 2014.

The principles in the code (“Responsibilities,” the “Public Interest,” “Integrity,” “Objectivity and Independence,” “Due Care,” and “Scope of Services”) apply to all members in the performance of all professional services except for “Independence,” which applies only to those members who perform audit and other attest-related services for clients. The principles in the revised code are the same as those in the prior code. They represent the aspirational goals for members in public practice and members in business and underlie the enforceable rules of conduct.

The definitions in the revised code have been expanded to include all the terms that apply to the rules of conduct. The summary of all relevant terms in the revised code in one place helps members in public practice determine whether they have adhered to the ethics rules in the performance of professional services for clients and whether members in business have adhered to the ethics rules in the performance of professional services for an employing organization.

New terms in the definitions section include:

- **Attest client**—A client that engages a member to perform an attest engagement, or an entity with respect to which a member performs an attest engagement.
- **Employing organization**—Any entity that employs the member or engages the member on a contractual or volunteer basis in an executive, staff, governance, advisory, or administrative capacity to provide professional services.

**Members in Public Practice**

Two separate conceptual frameworks have been developed in the revised code, one for members in public practice and one for members in business. The frameworks are effective December 15, 2015, and provide a foundation to evaluate whether threats to the member’s compliance with the rules of conduct are at an acceptable level or whether safeguards should be developed to prevent a violation of the rules. Under the revised code, in the absence of an interpretation of a specific rule of conduct that addresses a particular relationship or circumstance, a member in public practice should evaluate whether that relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is a threat to the member’s compliance with the rules that is not at an acceptable level. When making that evaluation, the member should apply the conceptual framework approach discussed below.

The revised code specifies that, in some circumstances, no safeguards can reduce a threat to an acceptable level. For example, a member cannot subordinate professional judgment to others without violating the Integrity and Objectivity Rule (1.100.001). In such circumstances, the member may not use the conceptual framework to overcome this prohibition or any other prohibition or requirement in the revised code. The “Conceptual Framework for Independence” interpretation (1.210.010) of the Independence Rule (1.200.001) provides authoritative guidance that members should use when making decisions on independence matters that are not explicitly addressed by the independence rule and its interpretations.

**Threats and Safeguards Approach**

The revised code uses the threats and safeguards approach for all the rules of conduct that pertain to members in public practice and business, whereas the prior code restricted the threats to independence matters when providing attest services for clients. This broader application recognizes that relationships may exist between a member in public practice and a client that make it more difficult to comply with a variety of rules of conduct.

Both the revised code and the prior code identify the same threats including—

- adverse interest,
- advocacy,
- familiarity,
- management participation,
- self-interest,
- self-review, and
- undue influence.

One difference is that the revised code includes several examples that did not exist in the prior code because of the broader application to all rules of conduct and related interpretations. Additional safeguards are also identified to ensure compliance with laws, rules, regulations, and corporate governance policies. It appears that the motivating factors for the additional safeguards are the provisions of the Sarbanes-Oxley Act and New York Stock Exchange listing requirements.

Safeguards may partially or completely eliminate a threat or diminish its potential influence. To be considered effective, safeguards should eliminate the threat or reduce it to an acceptable level. Exhibit 1 categorizes the additional examples by source of the safeguard and links it to the Integrity and Objectivity Rule. The italicized items indicate the new language in the revised code.

**Ethical Conflicts for Members in Public Practice**

Under the revised code, when evaluating whether a member in public practice is in compliance with the rules and interpretations, a member must assess whether there is an ethical conflict that creates obstacles to following an appropriate course of action due to internal or external pressures or conflicts in applying rel-
Ethical conflicts (1.000.020) create challenges to ethical decision making because they present barriers to meeting the requirements of the rules of conduct. The identification of ethical conflicts to members in public practice appears to be linked to the recent expansion in the requirements of AICPA Interpretation 102-4 of Rule 102, Integrity and Objectivity, to include threats to members in public practice. An ethical conflict may be found, for example, when a member in public practice suspects a fraud may have occurred, but reporting the suspected fraud would violate the member’s responsibility to maintain client confidentiality.

Revised Interpretation 102-4 now applies to both internal accountants and auditors that might encounter differences of opinion with top management on accounting issues (members in business) and external auditors (members in public practice) that might encounter differences with a member of the firm’s management. This author has previously pointed out (“Guidance on Avoiding Subordination of Judgment When Threats to Integrity and Objectivity Exist,” The CPA Journal, October 2014) that the differences may go beyond internal client matters to include “pressures that may be imposed by superiors in an accounting firm on an engagement team member because firm management is unaware of, unable to, or unwilling to re-examine its own conclusions regarding an accounting position that would result in a materially different presentation of an item or statements than that which the staff accountant believes accords with professional standards of a client.” These pressures create ethical conflicts that present barriers to compliance with the rules of conduct and interpretations.

Exhibit 2 identifies the major considerations for members in public practice and business (discussed later) in assessing the risk that ethical conflicts may lead to a violation of the rules of conduct. The ethical conflicts provision is used in conjunction with the conceptual framework to assess whether members in public practice can overcome threats to compliance with the rules of conduct. The ethical conflict provision applies to all the rules of conduct, including the following:

- Integrity and objectivity (1.100.001),
- Independence (1.200.001),
- General standards (1.300.001),
- Compliance with standards (1.310.001),
- Accounting principles (1.320.001),
- Acts discreditable (1.400.001),
- Contingent fees (1.510.001),
- Commissions and referral fees (1.520.001),
- Advertising and solicitation (1.600.001),
- Confidential client information (1.700.001), and
- Form of organization and name (1.800.001).

The ethical conflicts provision in the revised code is effective as of December 15, 2014.

When an ethical conflict is encountered, a member may be required to take steps...
to best achieve compliance with the rules and law. The latter include the reporting requirements for fraud that are detailed in section 10A of the Securities Exchange Act of 1934. In weighing alternative courses of action, the member should consider the factors identified in Exhibit 2.

How the Conceptual Framework Applies to Specific Rules and Interpretations

Members in public practice may encounter various relationships or circumstances that create threats to the member’s compliance with the rules. The rules and interpretations seek to address many situations; however, they cannot address all relationships and circumstances that may arise. In the absence of an interpretation of a specific rule of conduct that addresses a particular relationship or circumstance, a member should evaluate whether that relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is a threat to the member’s compliance with the rules that is not at an acceptable level. When making that determination, the member in public practice should apply the conceptual framework and ethical conflict provision described in Part 1 of the revised code to all rules of conduct.

The revised code simplifies the process of evaluating the interpretations and ethics rulings related to specific rules by incorporating them directly into the discussion of the rules. Previously, members had to go through all the rulings to identify those applicable to specific rules of conduct or interpretations. This created some confusion, as some rulings were replaced by others while some were deleted. As a result, a member may have been required to peruse as many as 114 rulings on independence, integrity, and objectivity to determine the proper course of conduct. The revised code includes only the relevant interpretations and rulings, while referencing the related material in the prior code. Appendix D of the revised code contains a helpful mapping document that identifies content from the prior code and where it appears in the revised code.

The following discussion looks at specific rules, interpretations, and rulings, identifying changes in the revised code when compared with the provisions of the prior code and how they relate to the conceptual framework and ethical conflicts.

Integrity and Objectivity Rule for Members in Public Practice

One notable change is that the Integrity and Objectivity Rule is discussed first in the revised code, whereas the Independence Rule came first in the prior code. At first glance, this may appear to lessen the significance of the Independence Rule. However, there is a good reason for changing the order. The Integrity and Objectivity Rule applies to all members in public practice and all members in business in the performance of professional services, whereas independence is restricted to attest services. Moreover, given the division of the code into separate parts for members in public practice and members in business, it makes sense to first discuss the provisions of the Integrity and Objectivity Rule. More members now provide nonattest services—i.e., tax and advisory services—than attest services.

Application of the Integrity and Objectivity Rule in the revised code should be made in the context of the threats and safeguards approach of the conceptual framework for members in public practice (1.000.010) and ethical conflicts. One example of this situation in the revised code is the provision that addresses knowing misrepresentations in the preparation of financial statements or records (1.130.010) and subordination of judgment (1.130.020).

An example of the application of the conceptual framework in creating a more integrated revised code is in the area of the “The Use of a Third Party Service Provider.” In the prior code, this topic was initially discussed in Ruling 112 of the Integrity and Objectivity Rule (Rule 102). The language in the ruling links to the Confidential Client Information Rule (Rule 301), General Standards Rule (Rule 201), Compliance with Standards Rule (Rule 202), Ruling 12 under General Standards, and Ruling 1 under Confidential Client Information. Members in public practice needed to consult seven rules and rulings to fully understand the ethical requirements when using a third-party service provider. Under the revised code, the basic language of the relevant rules and rulings comes under the umbrella of the basic standard for the use of a third-party service provider (1.300.040). Although other provisions are mentioned, including the link to the Integrity and Objectivity Rule (1.150.040) and Confidential Client Information Rule (1.700.040), the discussion focuses on dealing with the threats to compliance with the rules, thereby linking back to the conceptual framework.

Independence Rule

A conceptual framework for independence was included in the prior code. Under the revised code, the Independence Rule is applied to attest services provided for a client by reference to the conceptual framework and ethical conflict provisions. In the absence of an interpretation of the rule that addresses a particular relationship or circumstance, a member in public practice should consult the conceptual framework and guidance when addressing conflicts that can arise when the member encounters obstacles to following an appropriate course of action. Such obstacles may be due to internal or external pressures, to conflicts in applying relevant professional or legal standards, or both.

Consistent with the Objectivity and Integrity Rule, safeguards may partially or completely eliminate a threat to independence or diminish the potential influence of the threat. To be effective, safeguards should eliminate the threat or reduce it to an acceptable level. The examples of new safeguards described in Exhibit 1 with respect to integrity and objectivity are equally applicable to the independence rule and related interpretations. Exhibit 3 presents new threats to independence contained in the revised code. The italicized items are the new language in the revised code. As previously discussed, the conceptual framework for integrity and objectivity applies to rules of conduct in the performance of all professional services, whereas the conceptual framework for independence is restricted to attest client services.

As previously mentioned, the conceptual framework for members in public practice (1.000.010) and ethical conflicts provisions (1.000.020) applies to all the rules of conduct. Exhibit 4 identifies the rules in the prior code and the new sections in the revised code.

Members in Business

Members in business may encounter var-
ious relationships or circumstances that create threats to compliance with the rules. The rules and interpretations seek to address many situations; however, they cannot address everything that may arise. Under the revised code, in the absence of an interpretation of a specific rule of conduct that addresses a particular relationship or circumstance, a member in business should evaluate whether that relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is a threat to the member’s compliance with the rules that is not at an acceptable level. When making that evaluation, the member should apply the conceptual framework approach discussed below.

Consistent with the requirements for members in public practice, the revised code specifies that in some circumstances no safeguards can reduce a threat to an acceptable level for members in business. For example, a member in business cannot subordinate professional judgment to others without violating the Integrity and Objectivity Rule (2.100.001). Under such circumstances, a member may not use the conceptual framework to overcome this prohibition or any other prohibition or requirement in the revised code.

An ethical conflict arises when a member in business encounters one or both of the following:
- Obstacles to following the appropriate course of action exist as the result of internal or external pressures
- Conflicts in applying relevant professional and legal standards create barriers to compliance with rules and law.

One example of an ethical conflict that threatens the ability of a member in business to comply with the rules occurs when a member in business suspects a fraud may have occurred but reporting the suspected fraud would violate the member’s responsibility to maintain the confidentiality of employer information. In weighing alternative courses of action, the member in business should apply the Conceptual Framework for Members in Business (2.000.010) and consider the guidance in Ethical Conflicts (2.000.020). In this regard, Exhibit 2, discussed previously for members in public practice, also applies to members in business. The consideration of the conceptual framework and ethical con-

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**EXHIBIT 2**
Ethical Conflicts and Compliance with the Rules of Conduct for Members in Public Practice and Business

<table>
<thead>
<tr>
<th>Asses: (1) Relevant facts and circumstances, including applicable rules, laws or regulations; (2) Ethical issues involved; and (3) Established internal procedures.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Be prepared to justify any departures appropriate in applying the relevant rules and laws.</td>
</tr>
<tr>
<td>Resolved conflict in a way that permits compliance with the applicable rules and law?</td>
</tr>
<tr>
<td>Address consequences of any violations of applicable rules and law.</td>
</tr>
<tr>
<td>Consider consulting with appropriate persons within the firm or employer organization.</td>
</tr>
<tr>
<td>Did not consult</td>
</tr>
<tr>
<td>Does conflict remain unresolved after pursuing the selected course of action?</td>
</tr>
<tr>
<td>Consider consulting with other individuals to help resolve conflict including appropriate professional body or legal counsel.</td>
</tr>
<tr>
<td>Does ethical conflict still remain unresolved?</td>
</tr>
<tr>
<td>Member likely to be in violation of one or more rules if association with the matter creating the conflict continues.</td>
</tr>
<tr>
<td>Consider continuing relationship with the engagement team, specific assignment, client, firm, or employer.</td>
</tr>
</tbody>
</table>

*Exhibit 2 was developed by the author from the “Ethical Conflicts” provision of the revised code.*
Conflict provisions is required for all the rules of conduct that apply to members in business. Application of the conceptual framework to specific rules of conduct for members in business becomes effective on December 15, 2015, whereas the ethical conflict section is effective on December 15, 2014.

Conceptual Framework for Members in Business

The revised code includes new material for members in business to evaluate whether relationships may exist between the member and the employing organization that create threats to compliance with the Integrity and Objectivity Rule. The conceptual framework applies to integrity and objectivity, as well as to other rules of conduct, but not to independence, because members in business do not provide attest services to clients that require complete independence.

Threats to Compliance with the Rules

Similar to the guidance for members in public practice, the threats and safeguards approach for members in business identifies a variety of threats to compliance with the Integrity and Objectivity Rule that creates the need for safeguards to reduce the threat to an acceptable level or eliminate it. The threats and safeguards that apply to members in business are different from those for members in public practice. The following examples apply to members in business in the revised code.

Advocacy threat. Advocacy threats exist because a member may promote an employing organization’s interests or position to the point that the member’s objectivity is compromised. This would be the case if obtaining favorable financing or additional capital is dependent upon the accuracy of information included in or excluded from a prospectus, an offering, a business plan, a financing application, or a regulatory filing, or if the member gives or fails to give information that the member knows will unduly influence the conclusions reached by an external service provider or other third party.

Familiarity threat. A familiarity threat arises from a long or close relationship between the member and the employing organization, such as when a member has charged, or expressed an intention to charge, the employing organization with violations of law. The threat that arises is the result of the ethical conflict. One example is if a member made a whistleblowing charge against the employer under the Sarbanes-Oxley Act or the Dodd-Frank Act. Other threats may exist because a member, someone in the member’s immediate family, or a close relative has a financial or other relationship with a vendor, customer, or competitor; there is a potential acquisition of the employing organization; or a member has sued or expressed an intention to sue the employing organization or its officers,
**EXHIBIT 3**
Examples of New Threats to Independence*

<table>
<thead>
<tr>
<th>Threat</th>
<th>New Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adverse interest</td>
<td><em>The threat that a member will not act with objectivity because the member’s interests are in opposition to the interests of an attest client.</em></td>
</tr>
<tr>
<td>Advocacy</td>
<td><em>The threat that a member will promote an attest client’s interest or position to the point that his or her independence is compromised.</em></td>
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<td></td>
<td><em>A member provides expert witness services to an attest client.</em></td>
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<tr>
<td>Familiarity</td>
<td><em>The threat that, because of a long or close relationship with an attest client, a member will become too sympathetic to the attest client’s interests or too accepting of the attest client’s work or product.</em></td>
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<td></td>
<td><em>A partner or partner equivalent of the firm has been a member of the attest engagement team for a prolonged period.</em></td>
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<td></td>
<td><em>A member who performs insufficient audit procedures when reviewing the results of a nonattest service because the service was performed by the member’s firm (this provision was deleted in the revised code).</em></td>
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<tr>
<td>Management participation</td>
<td><em>The threat that a member will take on the role of attest client management or otherwise assume management responsibilities for an attest client.</em></td>
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<tr>
<td></td>
<td><em>A member accepts responsibility for designing, implementing, or maintaining internal controls for the attest client.</em></td>
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<tr>
<td>Self-interest</td>
<td><em>The threat that a member could benefit, financially or otherwise from an interest in, or relationship with, an attest client or persons associated with the attest client.</em></td>
</tr>
<tr>
<td>Self-review</td>
<td><em>The threat that a member will not appropriately evaluate the results of a previous judgment made, or service performed or supervised by the member or an individual in the member’s firm, and that the member will rely on that service in forming a judgment as part of an attest engagement.</em></td>
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<td></td>
<td><em>Certain self-review threats, such as preparing source documents used to generate the attest client’s financial statements, pose such a significant self-review threat that no safeguards can eliminate or reduce the threats to an acceptable level.</em></td>
</tr>
<tr>
<td>Undue influence</td>
<td><em>The threat that a member will subordinate his or her judgment to that of an individual associated with an attest client or any relevant third party due to the individual’s reputation or expertise, aggressive or dominant personality, or attempts to coerce the member or exercise excessive influence over the member.</em></td>
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*Italicized items represent the new language in the revised code.

with a person or an employing organization that causes a member to become too sympathetic to their interests or too accepting of the person’s or employing organization’s product or service. Examples identified in the revised code include situations in which:

- A member uses an immediate family member or a close relative’s company as a supplier to the employing organization;
- A member accepts an individual’s work product with little or no review because the individual has been producing an acceptable work product for an extended period of time;
- Someone in the member’s immediate family or a close relative is employed as a member’s subordinate; and
- A member regularly accepts gifts or entertainment from a vendor or customer of the employing organization.

**Self-interest threat.** The existence of a self-interest threat means that a member could benefit, financially or otherwise, from an interest in or a relationship with the employing organization or persons associated with the employing organization—for example, when a member’s immediate family member or close relative has a financial interest in the employing organization. A self-interest threat can occur when a member holds a financial interest in the employing organization and the value of that financial interest is directly affected by the member’s decisions (e.g., when the financial interest is in the form of shares or options). A self-interest threat also may exist if a member is eligible for a profit-sharing or other performance-related bonus, and the value of that bonus is directly affected by the member’s decisions.

**Self-review threat.** A self-review threat can occur when a member is unable to appropriately evaluate the results of a previous judgment made or service performed or supervised by the member or by an individual in the employing organization, and the member relies on that service in forming a judgment as part of another service. An example is when performing an internal audit procedure, for example, an internal auditor accepts work that he or she previously performed in a different position or the member accepts the work previously performed by the member, alone or with others, that provides the basis for performing another professional service.

**Undue influence threat.** These threats
occur because a member subordinates her judgment to that of an individual associated with the employing organization or any relevant third party due to that individual’s position, reputation, or expertise; aggressive or dominant personality; or attempts to coerce or exercise excessive influence over the member. One example is when a member, such as a controller, is pressured by the chief financial officer to accept false or misleading financial statements. Other examples include pressure to deviate from a company policy, pressure to change a conclusion regarding an accounting or tax position, and pressure to hire an unqualified individual.

Safeguards to Protect against a Violation of the Rules

The safeguards to reduce the threats to compliance with the rules or to reduce them to an acceptable level are different for members in business than members in public practice. For members in business, the safeguards are implemented by the employing organization not the firm, and client safeguards are not applicable. The safeguards are too numerous to explain, but selected comparisons are discussed below to demonstrate how a safeguard that might apply to members in public practice would not apply to members in business, or vice versa.

Safeguards created by the profession, legislation, or regulation. For members in public practice, one safeguard that does not apply to members in public practice is the external review of a firm’s quality control system.

Safeguards implemented by the employing organization. These safeguards can be divided into the following two groups:

- Those applicable to internal policies and procedures with respect to organizing and operating the organization, and
- Internal policies and procedures with respect to compliance with applicable laws, rules, regulations, and corporate governance policies.

The following safeguards relate to compliance with applicable laws, rules, regulations, corporate governance policies, and ethical standards within the employing organization. The presence of the following safeguards helps to reduce a threat to an acceptable level or eliminate the threat to compliance with the rules:

- A tone at the top that emphasizes a commitment to fair financial reporting and compliance with applicable laws, rules, regulations, and corporate governance policies;
- Policies and procedures addressing ethical conduct and compliance with laws, rules, and regulations;
- An audit committee charter, including independent audit committee members;
- Dissemination of corporate ethical compliance policies and procedures, including whistleblower hotlines, the reporting structure, dispute resolution, or similar policies, in order to promote compliance with laws, rules, regulations, and other professional requirements;
- Policies and procedures for implementing and monitoring ethical practices;
- A reporting structure whereby the internal auditor does not report to the financial reporting group;
- Policies and procedures that do not allow an internal auditor to monitor areas for which the internal auditor has operational or functional responsibilities; and
- Policies for promotion, rewards, and enforcement of a culture of high ethics and integrity.

Ethical Conflicts for Members in Business

Similar to members in public practice, ethical conflicts for members in business may arise that create threats to compliance with some or all the rules of conduct, excluding independence, which applies only to members in public practice. The ethical conflict provision is effective on December 15, 2014. Essentially, the ethical conflicts that apply to members in business are the same as those for members in public practice, except for the following:

- Client confidentiality is replaced by confidentiality of one’s employer;
- Consultation about ethical conflicts with appropriate persons within the firm is replaced by those within the employing organization; and
- Reference to a continuing relationship with the engagement team, specific assignment, client, firm, or employer is replaced by a continuing relationship with the specific assignment or employer.

Members in business should consult Exhibit 2 for additional guidance on how to deal with ethical conflicts.

Application to Rules of Conduct

Each of the rules of conduct that apply to members in business should be evaluated to determine whether any threats to compliance with the rules exist and whether safeguards can reduce the threat to an acceptable level or eliminate it. The ethical conflicts provision also should be evaluated to assess obstacles to following an appropriate course of action due to internal or external pressures and conflicts in applying relevant professional or legal standards.

For the most part, the application of the conceptual framework and ethical conflicts to the rules of conduct for members in business are the same or similar to those for members in public practice. The following discussion highlights when differences exist. In all cases, references to attest client and the independence standard do not apply to members in business.

Integrity and Objectivity Rule for Members in Business

Conflicts of interest for members in business (2.110.010). There may be conflicts for members in business because of a relationship with the employing organization, a vendor, a customer, a lender, a shareholder, or another party. Such conflicts are different for members in business than members in public practice because the former pertain to relationships within the employing organization whereas the latter may arise when providing nonattest services to an attest client. In the prior code Interpretation 102-7, “Conflicts of Interest for Members in Business,” details situations when conflicts of interest may arise for members in business. The same examples are in the revised code, including the identification of a conflict of interest, evaluation of the conflict, and disclosure of the conflict and consent.

Knowing misrepresentations in the preparation of financial statements or records (2.130.010). When preparing and reporting information, threats may exist to compliance with the Integrity and Objectivity Rule that would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. As a result, a member in business would be considered to have knowingly misrepresented facts in violation of the rule. The threats and safeguard considerations were not present in the prior code because the conceptual framework for members in business did not exist.
Nevertheless, the examples of when integrity and objectivity would be impaired are the same in the prior and revised codes, including when the member—
- makes, permits, or directs another to make materially false and misleading entries in an entity’s financial statements,
- records or fails to correct the entity’s financial statements or records that are materially false and misleading, or
- signs or permits another to sign a document containing materially false and misleading information.

**Subordination of judgment (2.130.020).**

The subordination of judgment provision under the Integrity and Objectivity Rule in the prior code is the same as the provision under the revised code for members in business. This provision in the prior code has been applicable to members in business through Interpretation 102-4.

**Obligation to the employer’s external accountant (2.130.030).**

Similar to the subordination of judgment provision in the revised code, the obligation of a member in business to the employer’s external accountant was already addressed in Interpretation 102-3 in the prior code.

**Other Rules**

Each of the other rules of conduct that are applicable to members in business contain new material in the revised code that applies the conceptual framework for members in business, the consideration of ethical conflicts, and the specifics of each rule to assess whether threats exist to compliance with a rule that should be reduced to an acceptable level or eliminated by safeguards created by the profession, legislation or regulation, or through safeguards implemented by the employing organization. The following rules and related sections in the revised code are applicable to members in business:
- General Standards Rule (2.300.001);
- Compliance with Standards Rule (2.310.001);
- Accounting Principles Rule (2.320.001); and
- Acts Discreditable Rule (2.400.001).

Other rules that apply to members in public practice do not apply to members in business because the former are client-specific. These rules include: confidential client information, contingent fees, advertising and solicitation, commissions and referral fees, and form of organization and name.

**Other Members**

Part 3 of the revised code applies to members who are not in public practice and are not in business, including members who are retired or not currently employed. The only rule applicable to other members is Acts Discreditable (3.400.001). Acts discreditable can occur even when a member is not in public practice or business because they bring disgrace to the member and compromise that person’s professional standing. This section is effective December 15, 2014.

The only provision of the Acts Discreditable Rule that did not exist in the prior code is “False, Misleading, or Deceptive Acts in Promoting or Marketing Services” (3.400.090). Under this section, a member (other member) would be in violation of the Acts Discreditable Rule if the member promotes or markets the member’s abilities to provide services or makes claims about the member’s experience or qualifications in a manner that is false, misleading, or deceptive, including any claim or representation that would likely cause a reasonable person to be misled or deceived. For example, a member may not make a representation about CPA licensure or any other professional certification or accreditation that is not in compliance with the requirements of the relevant licensing authority or designating body.

**Better Tools for Ethical Decision Making**

Members in public practice and members in business can more readily identify the rules and interpretations that apply to them because the AICPA Code of Professional Conduct is now divided into two sections. (A separate third section applies to other members.) In the prior code, it was not always clear which rules of conduct and interpretations applied in a particular situation. One notable exception was when a member in business was being pressured by a superior to go along with false and misleading financial statements. In this instance, a provision in the prior code clarified that there would be a violation of integrity and objectivity if the member acquiesced to the pressure. However, other rules were not directly addressed in the prior code, including the General Standards Rule that requires competence in the performance of professional services, compliance with the standard rule that might include when a member in business does tax work for the

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**EXHIBIT 4**

**Mapping the Changes to the Code**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Prior Code</th>
<th>Revised Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence</td>
<td>Rule 101</td>
<td>1.200.001</td>
</tr>
<tr>
<td>Integrity and objectivity</td>
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<td>Rule 203</td>
<td>1.320.001</td>
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<td>Rule 301</td>
<td>1.700.001</td>
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<td>Rule 501</td>
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<td>Rule 502</td>
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<td>Commissions and referral fees</td>
<td>Rule 503</td>
<td>1.520.001</td>
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<tr>
<td>Form of organization and name</td>
<td>Rule 505</td>
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employing organization, adherence to the Accounting Principles Rule that dictates following GAAP, and the Acts Discreditable Rule.

The revised Code of Professional Conduct has many advantages for members in public practice and members in business because of the new conceptual framework that applies to integrity and objectivity standards, as well as the ethical conflicts provision. The conceptual framework in the prior code only addressed independence issues. The revised code now contains a conceptual framework that helps assess whether integrity and objectivity would be compromised when threats exist that cannot be reduced to an acceptable level or eliminated through the application of one or more safeguards. The new ethical conflicts provision, which applies to all members in the performance of all professional services, operates in conjunction with the conceptual framework to assess whether integrity and objectivity have been compromised—and this provision applies to other rules of conduct as well. The threats and safeguards approach is principles-based, and it establishes a sound foundation to make decisions about the applicability of rules and interpretations to both members in public practice and members in business.

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