

Study of AICPA Principles of Professional Conduct With a Focus On Members in Business

Part 1

FTX Through the Lens of the AICPA Code of Professional Conduct Principles



Purpose & Learning Objectives

To use the story of FTX to learn more about the AICPA Code of Professional Conduct Principles

- Understand each of the AICPA Code of Conduct Principles.
- Be able to know how they apply professional and personally.

WE PROVIDE PUBLIC PROTECTION



Market Summary > Bitcoin

57,693.70 USD

+994.30 (1.75%) ↑ today

Jul 9, 4:29 PM UTC · [Disclaimer](#)

+ Follow

1D 5D 1M 6M YTD 1Y 5Y Max



Market Summary > Binance Coin

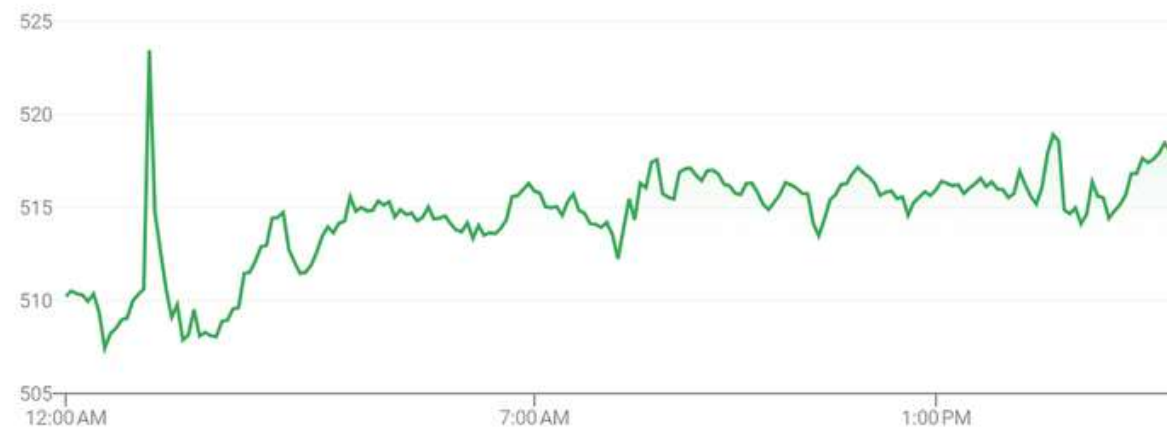
518.05 USD

+7.84 (1.54%) ↑ today

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1

BNB

518.05

USD

WHAT IS CRYPTO?

Cryptocurrency is a digital or virtual currency that is secured by cryptography.

- Not controlled by a government
- It is hard to counterfeit or double-spend.
- Can transfer without a intermediary.
- Common ones are Bitcoin, Ethereum, and Dogecoin.

Important Term!

Tokens: Item purchased or traded that represents something of value.

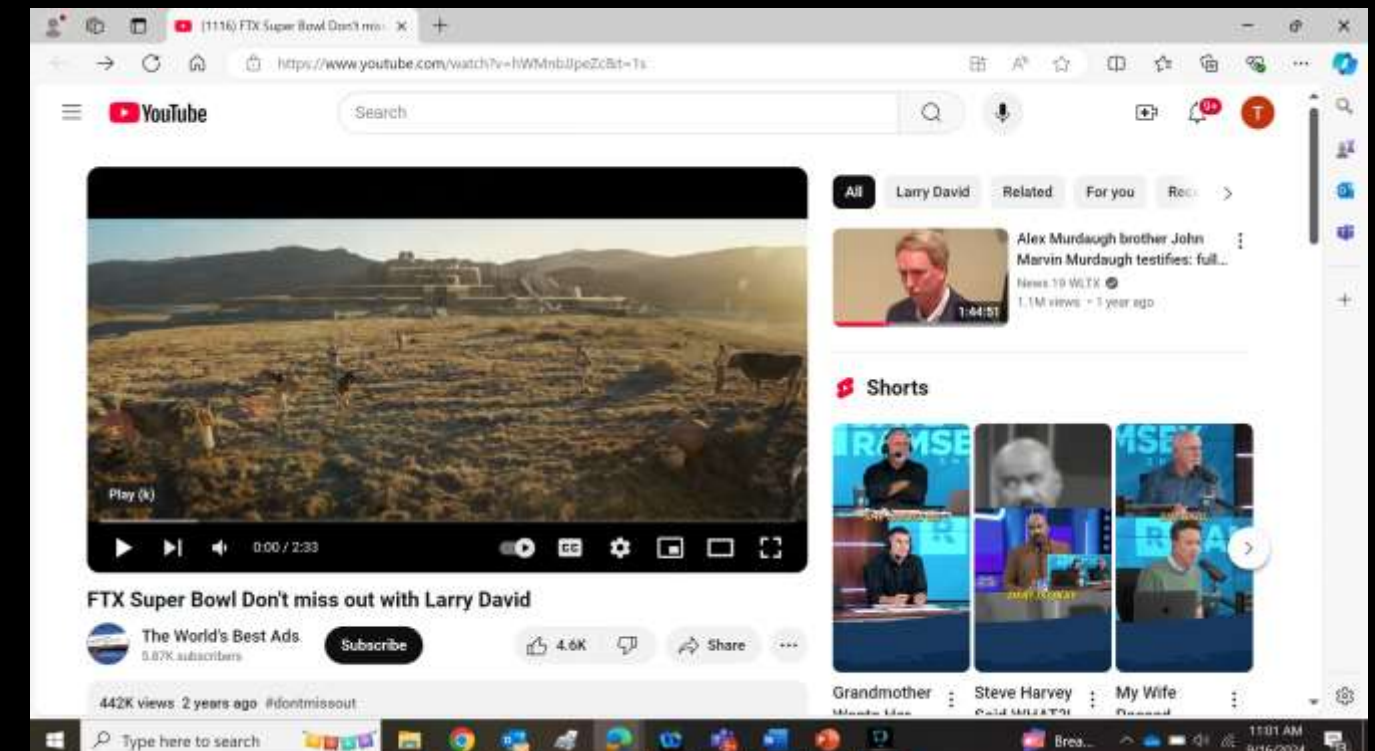


WHAT IS FTX?

- Cryptocurrency exchange started in 2018.
- Founded by Sam Bankman-Fried after he started a crypto trading firm named Alameda in 2017.
- At one point, it was the second-largest crypto exchange in the world.
- Specialized in spot markets, derivatives, options, volatility, and leveraged products.
- At its peak, it had a \$32 billion valuation with high profile investors such as Sequoia Capital and BlackRock.
- Declared bankruptcy on November 11, 2022.



THE BANKRUPTCY CASE



AICPA CODE OF PROFESSIONAL CONDUCT PRINCIPLES

Lays out the six principles which guide the Code of Conduct.

- Responsibilities Principle
- Public Interest Principle
- Integrity Principle
- Objectivity and Independence Principle
- Due Care Principle
- Scope and Nature of Services Principle

It is part of the Oklahoma Accountancy Board rules.



RESPONSIBILITY

Individuals should exercise professional and moral judgements in all their activities. They should cooperate with each other to improve the art of accounting and maintaining the public's confidence.

RESPONSIBILITY

FTX

The Good

- Worked to set up crypto regulation at the federal level.
- Testified in front of Congress twice.
- Donated millions to political candidates.
- Rescued crypto companies.

The Bad

- Crafting the rules to suit FTX only.
- Used customer money for political donations.
- Bailed out crypto rivals for personal gain reasons.

A man in a dark suit is seen from the back, holding a microphone and addressing a crowd. The background is filled with warm, out-of-focus lights, suggesting a large indoor gathering or conference.

PUBLIC INTEREST PRINCIPLE

One should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism. There may be conflicting interests, but one must be guided by integrity and remember to act for the best interest of the public.

FTX CREATED FALSE PUBLIC TRUST



- **Super Bowl Ad**
- **Money Back Guarantee**
- **Selflessness**
- **Public Relations**

To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity. Integrity requires a member to be, among other things, honest and candid within the constraints of client confidentiality.





INTEGRITY: FTX

- After FTX collapse, Sam Bankman-Fried went on a media tour.
- Asserted several claims which were then proven to be false.
- This lack of integrity spread to more than just Sam Bankman-Fried.



OBJECTIVITY AND INDEPENDENCE PRINCIPLE

One should maintain objectivity and be free of conflict of interest in discharging professional responsibilities.

- **Objectivity is a state of mind. It means to be impartial, intellectually honest, and free of conflicts of interest.**
- **Independence precludes any relationships that may appear to impair one's objectivity in rendering services.**

OBJECTIVITY AND INDEPENDENCE: FTX

- Sam Bankman-Fried's two companies, Alameda and FTX, were closely intertwined even though all parties denied this.
- Decisions were made by the Alameda CEO and Sam Bankman-Fried together.
- Manipulated one company to benefit another.



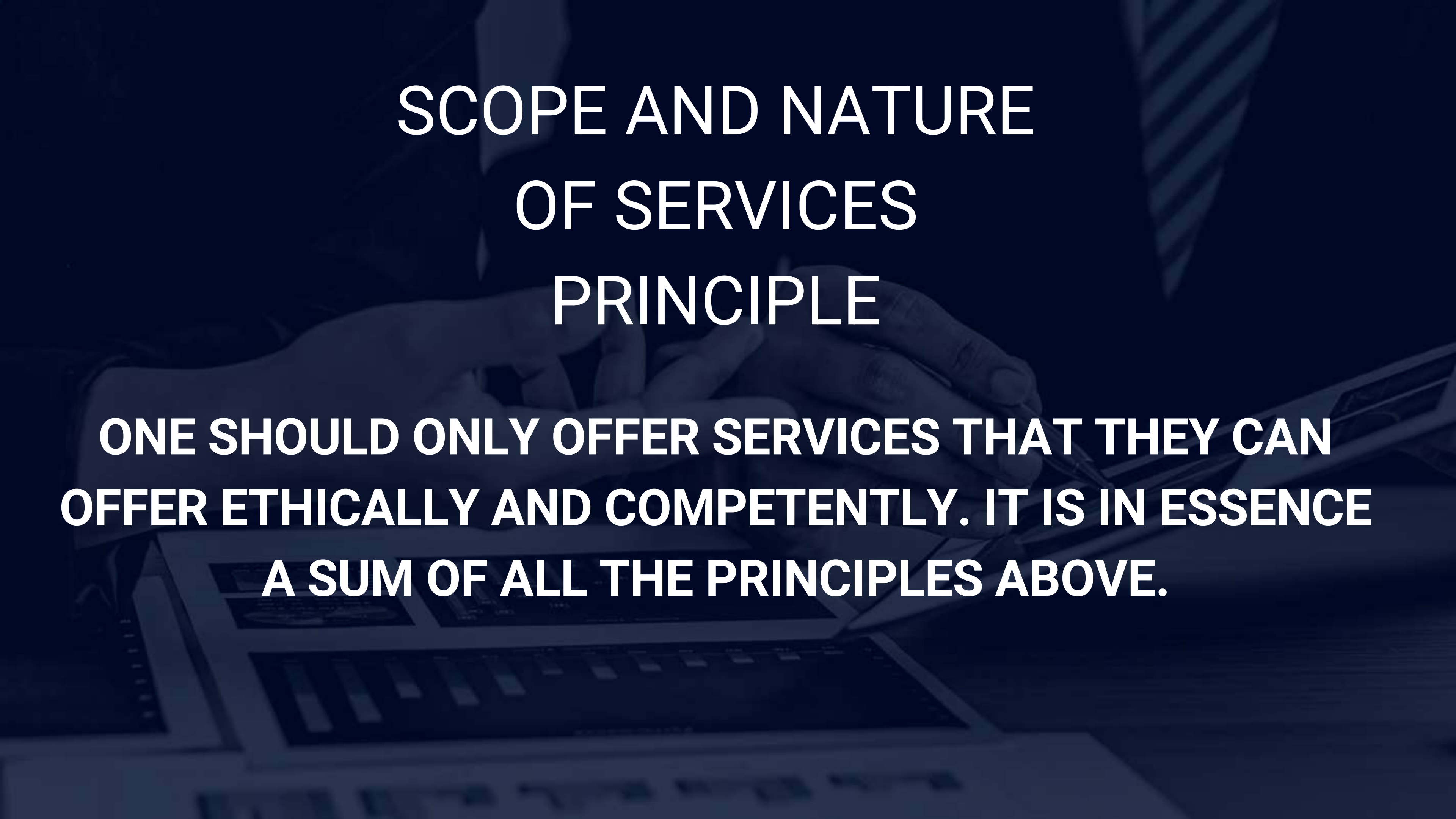
DUE CARE

One should observe the profession's technical and ethical standards , strive to improve competency and quality of service and discharge professional responsibility to the best of one's ability.



DUE CARE AND FTX

- Little formal organization or checks and balances.
- Failed to have necessary staff
- Lacked proper software and equipment.

A person in a dark suit and striped tie is shown from the chest down, writing on a laptop screen with a pen. The background is a solid dark blue. The text is overlaid on this image.

SCOPE AND NATURE OF SERVICES PRINCIPLE

**ONE SHOULD ONLY OFFER SERVICES THAT THEY CAN
OFFER ETHICALLY AND COMPETENTLY. IT IS IN ESSENCE
A SUM OF ALL THE PRINCIPLES ABOVE.**

So What Happened?

Sam Bankman-Fried was sentenced to 25 years in prison, three years of supervised release, and ordered to pay \$11 billion in forfeiture. It is believed he is currently housed at a California prison not far from his parent's home. He was in temporary custody in Oklahoma City on his way from Brooklyn to California.



In a surprise announcement, FTX announced they would be able to make all creditors whole. It should be noted that it will be in dollars and not crypto current which has generated some criticism as crypto has experienced a resurgence as of late.



IN CONCLUSION

- **Responsibility Principle** requires we work to maintain the public confidence and further our profession.
- **Public Interest Principle** requires we act in such a way that will serve the public interest and honor their trust.
- **Integrity Principle** requires we be candid and honest with those we serve.
- **Objectivity and Independence Principle** requires we be free of conflicts and do our work with a clear and impartial mind.
- **Due Care Principle** requires we observe ethical and technical standards and strive to create an environment where we can discharge our duties to the best of our abilities.
- **Scope and Nature of Services Principle** requires us to only accept work in which we can truly fulfill the requirements of the principles above.

Part 2 Common Ethical Dilemmas In Industry



Purpose & Learning Objectives

- Identify common ethical dilemmas for those in industry.
- Be able to identify how they are addressed in the AICPA Code of Professional Conduct.
- Understand how this interacts with the Oklahoma Accountancy Act and Rules.

WE PROVIDE PUBLIC PROTECTION



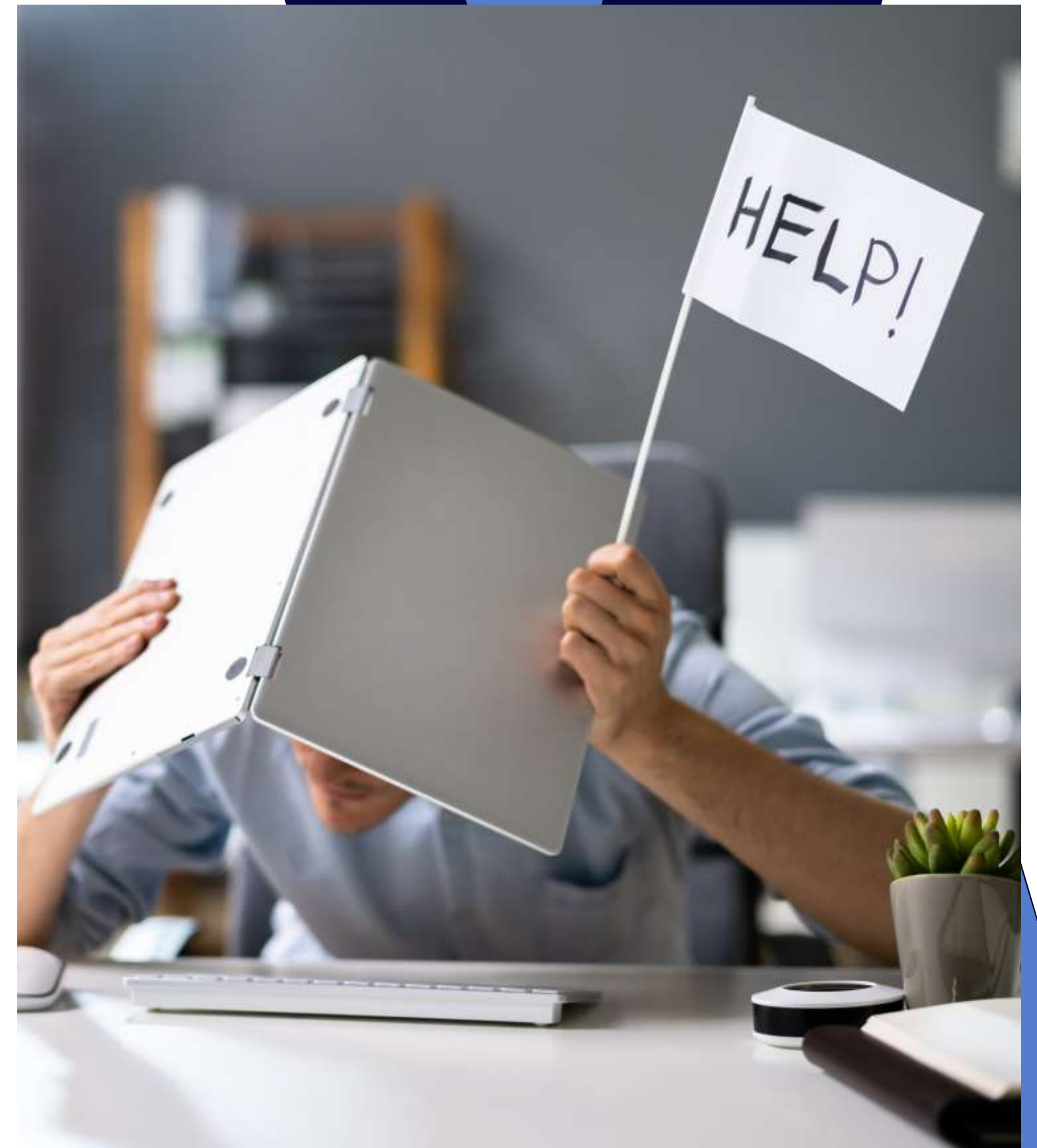
Starting Baseline

- Similarities and Differences in ethical rules between public and industry
- What is a Member in Business according to the ACIPA Code?
- What about those that live in both worlds?



Types of Ethical Threats

- Adverse Interest
- Advocacy
- Familiarity
- Self-Interest
- Self-Review
- Undue Influence

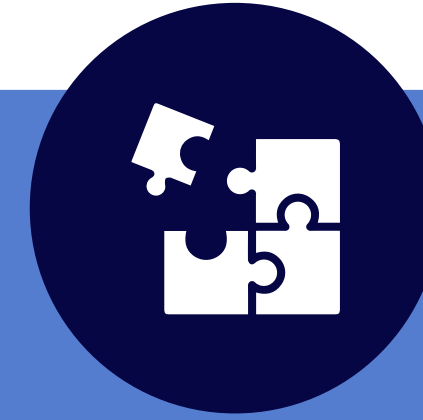


Conceptual Framework



Definition

The conceptual framework approach is a way of identifying, evaluating and addressing threats to compliance with the rules resulting from a specific relationship or circumstance that is not otherwise addressed in the code.



Steps

- Identify the Threats
- Evaluate the significance of the threats.
- Apply any safeguards needed to bring the threat down to an acceptable level if possible.

Let's do a short example



Ron, 62, is the CFO of a small textile company. He has been there since the beginning, owns stock in the company as part of his retirement, and is great friends with the founder and CEO. The company is presented with a great business opportunity, but to take advantage of it, the company needs to expand their production facilities which will cost a few million dollars. Ron is charged with compiling the financial information the bank will need to decide whether or not to make the loan.

What threats exist here and what safeguards can be applied?

Subordination of Judgement

Occurs when a CPA disagrees with their supervisor regarding the carrying out of a financial function when the CPA believes that following their supervisor's direction would lead to misleading financial statements or data.



Competency

Definition: Possession of sufficient knowledge or skill.

This includes the ability to supervise any employees adequately.

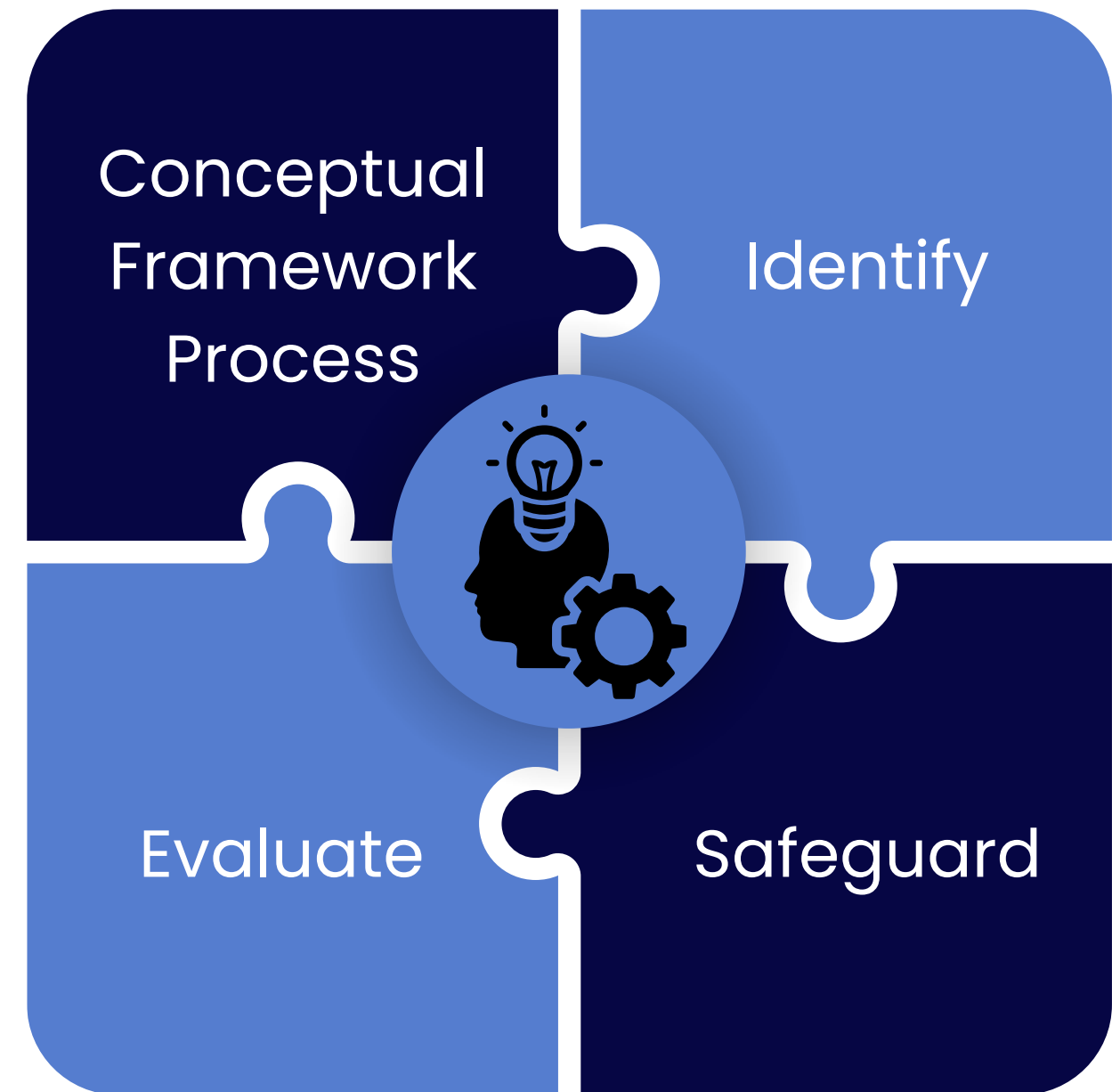
Important Question: How do you balance growing and learning new things while also fulfilling your due care responsibility?



An Example

Sue has been a senior internal auditor as Company X for several years. She has started to feel like she is stagnating in her career, but she is known for her ability to pick things up quickly and communicate effectively.

A director position opens up in the tax department, and the COO approaches her to see if she is interested. They are especially looking for a good communicator as there are several big changes that are going to need to be implemented in the near future which affect several divisions.



Conflicts of Interest

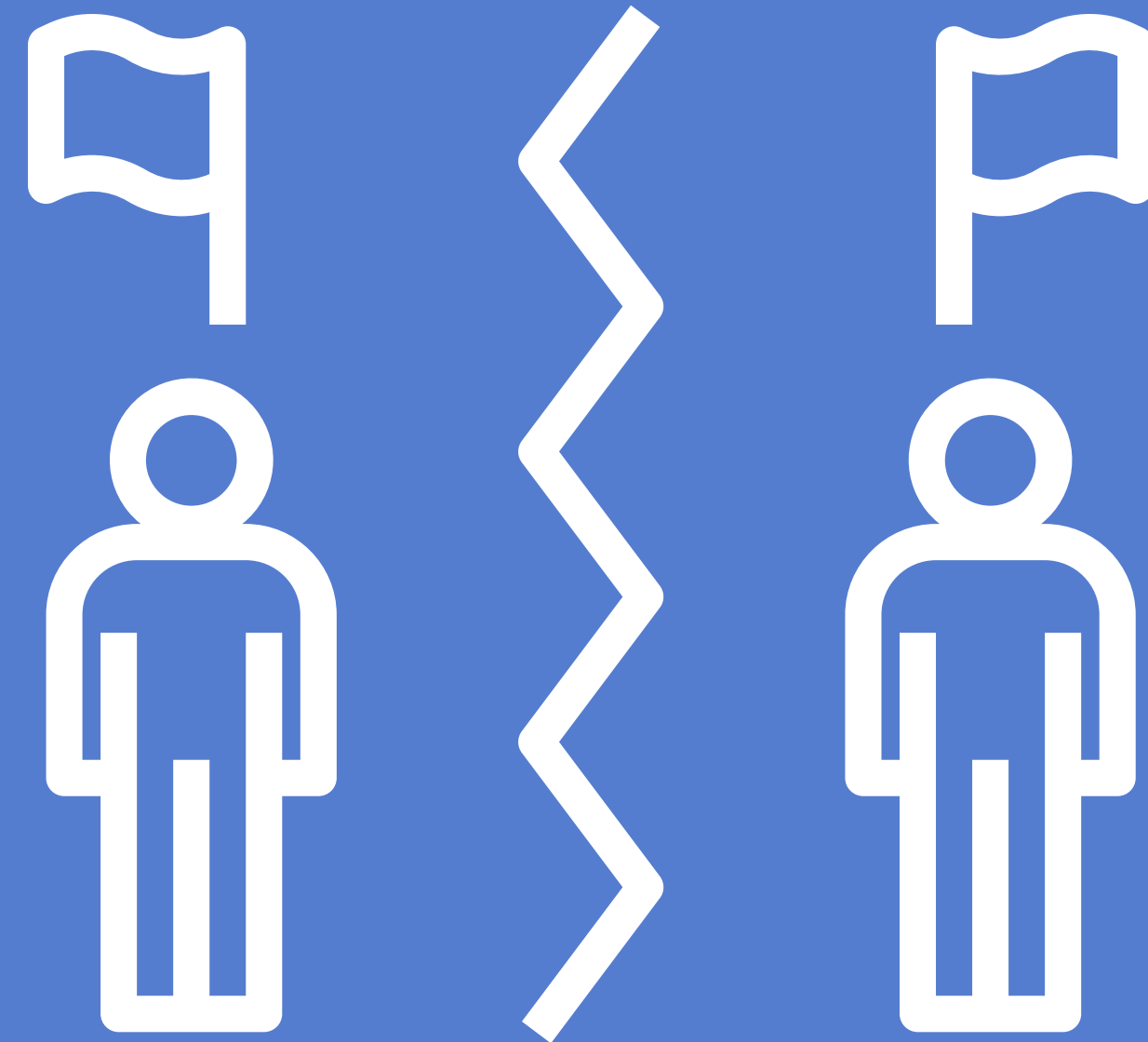
A conflict of interest exists when two or more contradictory interests relate to an activity by an individual or an institution. The conflict lies in the situation, not in any behavior or lack of behavior of the individual.

**Remember to think of how an informed 3rd party would see the situation.*



More about Conflicts of Interest

- Creates an adverse threat and a self-interest threat
- Examples of when conflicts of interest can occur:
 - Serving in management or government positions for two employing entities
 - Preparing financial information for members of management during a possible buyout
 - Selecting vendors
 - Serving in a governance or an influential position in an organization whose decisions could have a significant impact on a personal investment



Walking Through the Steps

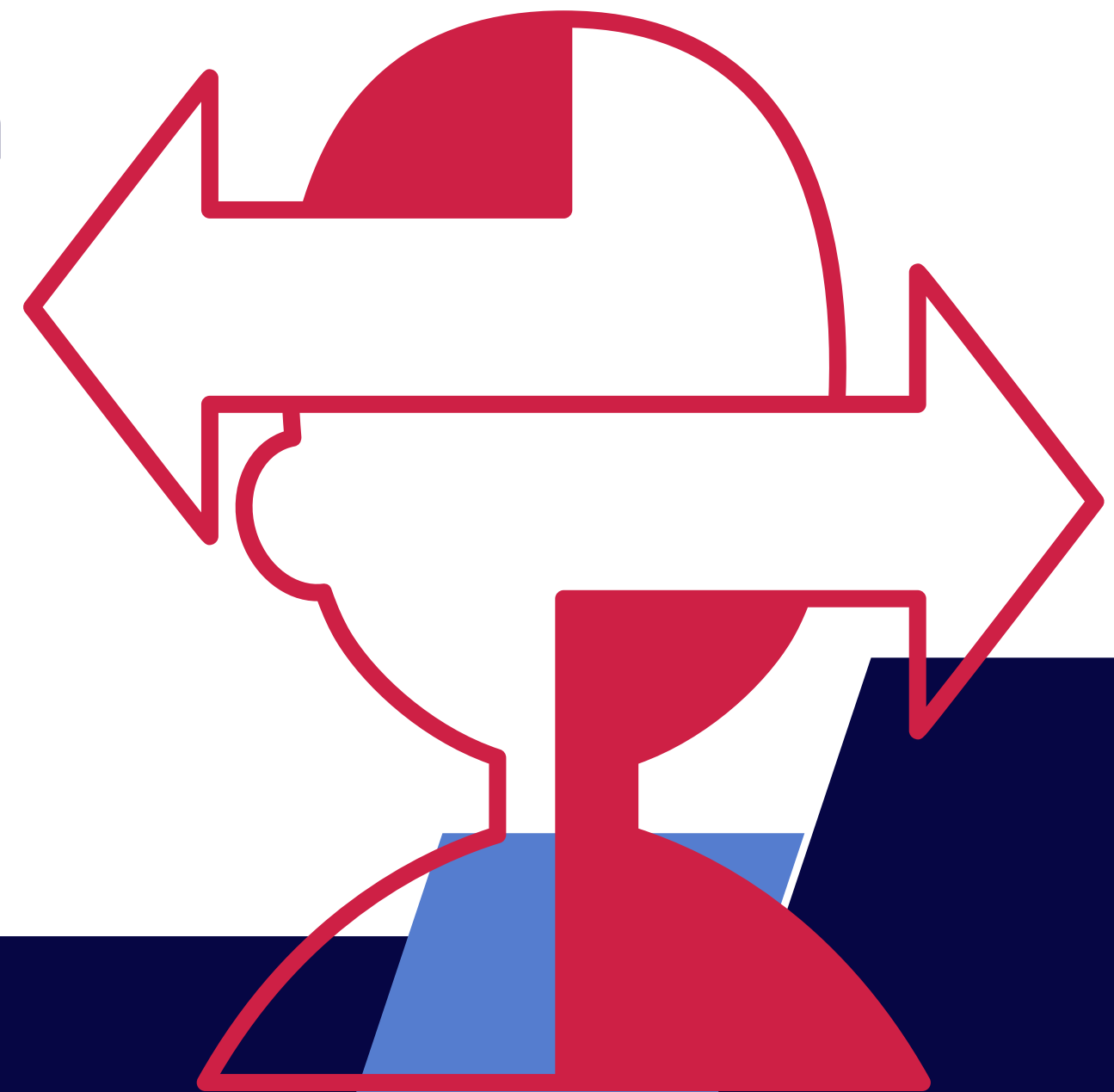


- Identify the conflict
 - Look at the facts and relationships between the parties involved and the nature of services
 - May require continuous monitoring
- Evaluate the significance of the threat
 - Significance of interest or relationships
 - Direct nature of the connection
- Applying Safeguards
 - Restructuring or segregating certain responsibilities or duties
 - Appropriate oversight
 - Withdraw from decision-making process
 - Consult with 3rd party

Don't forget to notify relevant parties.

Conflict of Interest Case Study

- CFO of a public company
- Began “fixing” the books to reap bonuses and increase stock prices.
- Manipulated the workers compensation expense.
- Led to restatement of 4 years of financial statements.
- Sentenced to federal prison.



Confidential Information

Confidential information is any information that is proprietary to the organization or employer and is not widely available to the public.

CPAs may not use confidential information gained through their employment or volunteer activities for outside purposes or personal gain.

If a CPA changes employers, the CPA is responsible for continuing to maintain that confidentiality. They cannot use that knowledge for your advantage or that of your new employer.

Case Study

Corruption of the RFP process

- Hired as the Controller and Chief Accounting Officer at a public company after several years as an internal auditor and other finance roles.
- Company had a long-standing audit firm.
- Initiated an RFP process for a new audit firm.
- Repeatedly sent confidential information to his preferred firm to assist them in building their proposal.
- Utilized their suggestions for his presentation to the company's audit board.
- Received a \$26k bonus for his work on the RFP.
- Prohibited from appearing before the SEC for 2 years and must pay a \$51k penalty.

What About Whistle-Blowing?

Provisions when disclosure is required by law:

- To comply with a subpoena or summons
- To inform the appropriate public authorities of violations of law that have been discovered.

Provisions when there is a professional responsibility or right to disclose when not prohibited by law:

- Initiate a complaint with or respond to a professional body
- To protect yourself in a legal proceeding
- to comply with professional standards and other ethics requirements
- To report potential concerns regarding questionable accounting, auditing, or other matters to the employer's hotline or those in governance.

Whistle-blow Responsibly

- Look at all relevant information that is known and proven.
- Determine who is appropriate party to notify.
- Consider consulting with an attorney.



HOW DOES THE OKLAHOMA ACCOUNTANCY BOARD FIT IN THIS STORY?



**Under Oklahoma Administrative Code 10:15-39-1, all
Oklahoma registrants must conform in fact and
appearance with the AICPA Code of Professional
Conduct.**

Friendly Reminders from the OAB

Forgetting to Renew

Forgetting to Get Their CPE

Not understanding the CPE cycle

Not registering their trade name

Confusing a CPE exemption for a Certificate status

Failure to understand the definition of public accounting under the OAA

Not updating your contact information

Not notifying us when you return to active status

Not registering their firms

Not providing requested information to the OAB

Not keeping up with changes in rules and statutes

Stopping their renewal for an unnecessary reason.

A dark blue, semi-transparent background image showing a business meeting. Two hands are visible, one holding a pen and the other pointing at a document. The document contains various charts and graphs, including bar charts and line graphs. The overall tone is professional and business-oriented.

ANY QUESTIONS?