

December 8, 2017

## **IFAC Small and Medium Practices (SMP) Committee Response to the International Ethics Standards Board for Accountants (IESBA) Exposure Draft: *Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements***

### **INTRODUCTION**

The SMP Committee (SMPC) is pleased to respond to the IESBA (the Board) on this Exposure Draft (ED). The SMPC is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small-and medium-sized entities (SMEs). The constituents of the SMPC are small-and medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs. Members of the SMP Committee have substantial experience within the accounting profession, especially in dealing with issues pertaining to SMEs, and are drawn from IFAC member bodies representing countries from all regions of the world.

### **GENERAL COMMENTS**

The SMPC has followed the Inducements project since its inception and has provided comment letters for the Board and Task Force's consideration over time.

Overall, it appears that the proposals in this ED are far more rules-based than the current threats and safeguards (principles-based) approach in other parts of the *Code of Ethics for Professional Accountants* (the Code). We believe that while the concept of 'improper intent' is generally well understood on an intuitive level, it is less suitable to make such a distinction in a global Code. Cultural differences do have a role and intentions by their nature can never be fully known to anyone other than the intender (unless they have been openly expressed).

We remain concerned about the level of detail in the revised inducement provisions, which in combination with possible expectations on the part of regulators, could lead to overly onerous documentation – in particular for SMPs. In our opinion, the extant principles based approach in the Code is not broken and could be retained with further clarification on what incentives for inducements might look like (i.e. they could be much broader than just gifts and hospitality).

We recognize that the IESBA will reflect on the effective date for the proposals in the context of its deliberations on the effective date for the restructured code. To assist practitioners with efficiently implementing the Code and managing the number of changes, we support the consideration of exploring the feasibility of the same effective date as the rest of the restructured Code.

### **SPECIFIC COMMENTS**

We have outlined our responses to each question (*in italics*) in the ED below.



*1. Do respondents support the proposals in Section 250? In particular, do respondents support the proposed guidance to determine whether there is an intent to improperly influence behavior, and how it is articulated in the proposals?*

Section R250.7 addresses the situations where inducements are made with the intention to improperly influence behavior, whereas Section 250.10 A1 addresses the situations where there is no actual or perceived intent to improperly influence behavior, but there are still potential threats to compliance with the fundamental principles in the Code unless the inducement is trivial and inconsequential. We consider that it is questionable whether intent alone is the most appropriate criteria for a globally applicable code. We believe that the very subjective nature of perceptions in conjunction with uncertainty as to the acceptable degree of latitude for cultural aspects and business customs is likely to be problematical, especially in many cross-border business environments.

We further believe that the threshold of inducements being trivial and inconsequential should equally be applicable under R250.7. The SMPC question whether any inducement of such nature could ever be determined (whether actual or perceived) as having been made with any realistic intent to improperly influence behavior – the notion of which seems to be somewhat far-fetched.

The professional accountant ought to be assumed to possess a sufficient level of integrity. Therefore, the relationship between the relative magnitude of the inducement and its relation to the intended impropriety (seriousness or gravity of the issue) will always need to be a key factor in the overall consideration.

*2. Do respondents agree that the proposed provisions relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs in proposed Section 250? If so, do respondents agree that the proposals in Section 340 achieve this objective?*

We agree with the alignment objective. However, there is a considerable degree of duplication which we believe could be further streamlined in order to enhance the readability of the Code.

It would be helpful if the examples of actions that might be safeguards to address the threats created by offering or accepting an inducement (340.11 A3) could also include practical examples from a smaller firm environment, and in particular for sole practitioners.

Research ([The role of SMPs in providing business support to SMEs](#)) indicates that irrespective of jurisdiction, accountants, and especially SMPs continue to be the preferred advisors to SMEs. The interaction embodies a long-term, personal relationship based on trust and communication. We are concerned about the potential unintended consequences of the proposals, which may impact many (harmless) interactions of a social nature between practitioners and their clients, which are important parts of establishing and building relationships, particularly in smaller, rural communities.

The requirement regarding immediate or close family members (R340.13) could be problematical in terms of its practical application. Given the threshold of ‘has reason to believe there is intent to improperly influence the behavior’ (which is a very open position), the obligation is then placed on the professional accountant (PA) to demonstrate their compliance with the requirement. With hindsight, a PA may be



required to demonstrate that they had “no reason to believe”, although at the time, that individual’s access to information could have been precluded or severely limited. We believe this situation will equally arise under Section R250.13.

*3. Do respondents support the restructuring changes and proposed conforming amendments in proposed Sections 420 and 906?*

We support the restructuring changes and proposed conforming amendments, which are expected to be put in place.

*4. Do respondents believe the IESBA should consider a project in the future to achieve further alignment of Sections 420 and 906 with proposed Section 340? If so, please explain why.*

We agree that consideration of whether further changes should be made to the independence provisions to more closely align them with Section 340 is beyond the scope of the Part C project. Whilst we recognize that such a matter might be considered as a future project, in our [response](#) to the IESBA Strategy Survey, we strongly supported the intended pause in any new changes to the Code after the completion of the restructuring project. We believe that the Board should prioritize conducting a post implementation review before further work is undertaken and new projects initiated.

## **CONCLUDING COMMENTS**

We hope the IESBA finds this letter helpful in informing the Board’s deliberations on the proposed revisions to the Code pertaining to the offering and accepting of inducements. Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

A handwritten signature in blue ink that reads 'Monica Foerster'.

Monica Foerster  
Chair, SMP Committee