

**Meeting:** IESBA CAG

**Meeting Location:** New York

**Meeting Date:** March 6, 2017

## Agenda Item

# C

### Review of Part C<sup>1</sup> of the Code, Phase 2 — Inducements

#### Objectives of Agenda Item

1. To report back on the discussion of the project at the September 2016 CAG meeting.
2. To obtain input on the issues and proposals relating to the revision of extant Section 350, *Inducements* and related proposed conforming amendments.

#### Project Status and Timeline

3. In 2012, the IESBA commenced work with the aim of exploring whether Part C needed to be strengthened to better promote ethical behavior by professional accountants in business (PAIBs). In March 2013, the IESBA approved a multi-phased project to revise Part C of the extant Code.

#### Phase 1

4. Phase 1 of the project was completed in December 2015, under the structure and drafting conventions for the extant Code, with IESBA approval of the close-off Document [Changes to Part C of the Code Addressing Preparation and Presentation of Information, and Pressure to Breach the Fundamental Principles](#) (“close-off document”).
5. As part of its Structure of the Code project, the IESBA proposed restructuring changes to extant Part C as revised by the close-off document, including retitling it Part 2, *Professional Accountants in Business*. This proposed restructured text is presented in Chapter 1 of the January 2017, Exposure Draft (ED), [Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2](#) (Structure ED-2). The comment deadline for Structure ED-2 is May 25, 2017.
6. The enhanced requirements and application material for PAIBs under Phase 1 of the project will be released in the new structure and drafting conventions for the Code and will have the same effective date as the restructured Code.

#### Applicability ED

7. In January 2017, the IESBA released an Exposure Draft (ED), [Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice](#) (Applicability ED). The Applicability ED includes proposals to clarify the applicability of the requirements and application material in extant Part C, *Professional Accountants in Business*, to

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<sup>1</sup> Extant Part C, Professional Accountants in Business

professional accountants in public practice (PAPPs). The deadline for comments on the Applicability ED is April 25, 2017.

8. As noted in the January 2017 [IESBA Update](#), the IESBA intends to complete revisions related to the applicability of the PAIB provisions in the Code at the same time as its Structure of the Code project. It also proposes to align the effective date of the applicability paragraphs with the effective date of the restructured Code.

*Phase 2*

9. Phase 2 of the project relates to a revision of extant Section 350. At its March 2017 meeting, the IESBA will be asked to consider and approve for exposure proposed revisions to extant Section 350 using the new structure and drafting conventions for the Code (proposed Section 250<sup>2</sup>) and related conforming amendments.
10. Appendix 1 provides the project history for Phase 2 of the project.

**Report Back on September 2016 CAG Discussion**

11. Below are extracts from the draft minutes of the September 2016 CAG meeting<sup>3</sup> and an indication of how the project Task Force and/or IESBA has responded to the CAG’s comments.

Matters Raised	Task Force/IESBA Response
TITLE	
<p>Mr. Bradbury expressed a view that the word “Inducement” should not be considered neutral. He explained that in his view an inducement is intended to encourage an individual to perform an action that would not have otherwise been taken. He questioned whether the proposed title for Section 250, “Gifts, Hospitality and other Inducements,” might imply that all gifts and hospitality are intended to induce a PAIB to do something that the PAIB would not have otherwise done.</p>	<p>Point taken into account.</p> <p>Ms. Snyder explained that the proposals set out in the “strawman” require PAIBs to assess the actual or perceived intent of an inducement and whether the actual or perceived intent is to influence an individual’s behavior, thus possibly creating a threat to compliance with the FPs. She explained further that once the PAIB has established that there is no adverse intent, the PAIB would need to evaluate the level of any threats to compliance with the FPs and address those threats, including implementing safeguards. She also noted that the Task Force had acknowledged that not all gifts and hospitality are intended to inappropriately affect behavior, but they would still be considered inducements.</p>

<sup>2</sup> Proposed restructured Code, Part 2, Section 250, *Gifts, Hospitality and Other Inducements*

<sup>3</sup> The draft September 2016 minutes will be approved at the March 2017 IESBA CAG meeting.

Matters Raised	Task Force/IESBA Response
	See also paragraphs under the heading “ <i>Intent Behind an Inducement</i> ” in <b>Agenda Item C-1</b> that deal with the topic of intent of inducements.
<p>Representatives offered the following editorial suggestions in relation to the title:</p> <ul style="list-style-type: none"> <li>• Mr. Hansen suggested that the title be revised to be “Gifts, Hospitality and other Potential Inducements.”</li> <li>• Mr. Koktvedgaard questioned whether the title should include a reference to threats, e.g. “Inducement Threats.”</li> <li>• Mr. Nicholson questioned whether the title should capture the phrase “Attempted Inducements.”</li> <li>• Mr. Fortin supported the Task Force’ proposal to have the title include “Inducement,” but suggested that additional wording be included in the Code to give consideration to the intent and value of the gift or hospitality.</li> </ul>	<p>Points taken into account.</p> <p>See also paragraphs under the heading “<i>The Use of “Inducements” as a Neutral Term and the Title of Section 250</i>” in <b>Agenda Item C-1</b> that explains the Task’s Force’s rationale for the title for Section 250.</p>
EVALUATION OF THREATS	
<p>Mr. Waldron suggested that if an inducement were to be declined, then the reason for doing so should be disclosed for transparency.</p>	<p>Point accepted.</p> <p>See paragraph 250.15 A1 of Section 250 in <b>Agenda Item C-2</b>.</p>
<p>Mr. Thompson asked whether the RITP test to assess the perceived intent of the inducement would be applied here.</p>	<p>Point accepted.</p> <p>Ms. Snyder confirmed that the RITP test would be used to assess the perceived intent and also the perceived adequacy of any safeguards implemented.</p> <p>See paragraphs R250.10–R250.12 of Section 250 in <b>Agenda Item C-2</b>.</p>
<p>Mr. Bradbury expressed a view that whether an inducement was acceptable would depend on the context in which it was made. Messrs. Hansen and Fortin agreed with this view, with Mr. Fortin adding</p>	<p>Point accepted.</p> <p>See paragraph 250.10 A1 of Section 250 in <b>Agenda Item C-2</b>.</p>

Matters Raised	Task Force/IESBA Response
that the acceptability of an inducement should be linked to how it affects the actions of the recipient.	
<p>Mr. Koktvedgaard noted that global organizations, such as the World Bank and International Monetary Fund, have guidance on bribery and corruption. He suggested that a revised Section 250 could include referencing such guidance.</p>	<p>Point accepted.</p> <p>Ms. Snyder noted that the Strawman included the need to understand all applicable laws and regulations and also policies and procedures of the employing organization that address inducements.</p> <p>See paragraphs 250.3 and 250.4 of Section 250 in <b>Agenda Item C-2</b>.</p>
<p>CULTURAL DIFFERENCES</p>	
<p>Mr. van der Ende felt that it is important to have guidance on cultural differences, as PAs would invariably assess an inducement from their own cultural perspective. While the RITP test would be useful to assess the adequacy of steps taken by a PA to consider cultural issues, the Strawman could further elaborate on this area. Mr. Inuma and Ms. Singh expressed a similar view, noting that exchanging gifts as part of business relationships, with no negative intent is a major part of Asian culture and thus cultural differences should be addressed within any revised pronouncement.</p>	<p>Points taken into account.</p> <p>Ms. Snyder noted that the Strawman contained (a) requirements for a PA not to offer or accept inducements that could be deemed inappropriate, and (b) guidance on how to refuse the inducement without damaging the relationship with the offeror. Ms. Snyder also noted that the aim of the revised section was to use a principles-based approach to permit consideration of cultural differences while not allowing a lower standard of behavior.</p> <p>See paragraphs 250.1 and R250.10 to R250.12 of Section 250 in <b>Agenda Item C-2</b>.</p>
<p>Mr. Koktvedgaard suggested that the employing organization could be encouraged to have policies to address cultural issues.</p>	<p>Point noted.</p> <p>Ms. Snyder responded that not all PAs are in a position to influence the policies of an employing organization. Hence, PAs could be encouraged, where feasible, to influence the employing organization's policies, but not necessarily be required to do so.</p> <p>See paragraph 250.4 of Section 250 in <b>Agenda Item C-2</b>.</p>

Matters Raised	Task Force/IESBA Response
ADDRESSING THREATS, INCLUDING SAFEGUARDS	
<p>Mr. Bradbury suggested providing guidance on how an inappropriate inducement could be retrospectively declined when the circumstance at the time of offering, such as a gift being presented at a gala event, is not conducive to declining the offer immediately.</p>	<p>Point accepted.</p> <p>Ms. Snyder indicated that the Task Force had considered possible safeguards, such as communicating to the offeror that the inducement cannot be accepted and suggesting an alternative.</p> <p>In response to the suggestion, the Task Force has revised its proposals in paragraph 250.12 A2 of Section 250 in <b>Agenda Item C-2</b>.</p>

### Material Presented

- Agenda Item C-1      Revisions of Part C Phase 2—Issues and Task Force Proposals
- Agenda Item C-2      Revisions of Part C Phase 2—Proposed Section 250

**Project History**

**Project: Review of Part C of the Code Phase 2 – Inducements**

**Summary**

	<b>CAG Meeting</b>	<b>IESBA Meeting</b>
Project commencement		<a href="#">March 2013</a>
Development of proposed international pronouncement (up to exposure)	<a href="#">April 2013</a> <a href="#">September 2014</a> <a href="#">September 2016</a>	<a href="#">January 2015</a> <a href="#">April 2015</a> <a href="#">June 2016</a> <a href="#">September 2016</a> <a href="#">December 2016</a>