

Supplement 2 to Agenda Item 5-A

Inducements ED – Compilation of Responses to Questions

Note: This supplement has been prepared for information only. A comprehensive summary of the significant comments received as of February 21, 2018 on the Exposure Draft, [Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements](#) (Inducements ED) and the Task Force’s related analysis are included in **Agenda Item 5-A**. All comment letters on the ED can be accessed [here](#).

Please consider the environment before printing this supplement.

Question 1

Proposed Section 250

- 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?

| # | Respondent | 1. Detailed Comment in Response to Question 1 Relating to Section 250 ¹ |
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| 1. | AE | <p>However, the importance of obtaining an adequate understanding of the relevant laws and regulations in the jurisdiction in which the inducement is being offered is essential and should be better emphasised, and not be concealed within paragraphs R250.5 and R340.5. That understanding will need to be communicated to others, including those within the organisation and close family, who might be subject to those laws and regulations.</p> <p>We support the inclusion of the professional accountant’s responsibility regarding the actions of third parties. The ED refers to “immediate or close family members”. The reason for restricting the population in this way is unclear. Essentially, it is the impact, or potential impact, on the professional accountant that needs to be considered.</p> <p>The requirement regarding immediate or close family members is problematic in terms of its practical application. We refer to paragraph R340.13. The obligation is placed on the professional accountant since they may be required to demonstrate the reason why they had “no reason to believe”, although access to information would likely have been precluded or severely limited at the time.</p> |

¹ Where there is a blank space in the comment column, it means the respondent did not provide any response.

| # | Respondent | 1. Detailed Comment in Response to Question 1 Relating to Section 250 ¹ |
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| | | Furthermore, clarity on the option of not accepting inducements would be welcome as it is not a given. |
| 2. | APESB | <p>Subject to our specific comments below, APESB is supportive of the proposed Section 250 Inducements, Including Gifts and Hospitality (Section 250), including the proposed guidance to determine whether there is an intent to improperly influence the behaviour of recipients of inducements.</p> <p>We would like, however, to raise the following matters for the IESBA's consideration to enhance the clarity and effectiveness of the provisions of Section 250:</p> <p>Nature of relationship with family members</p> <p>APESB is concerned that the guidance relating to factors relevant in determining whether there is improper intent introduced a new but ambiguous concept when referring to the 'closeness of the relationship' between an accountant and the accountant's immediate or close family members and counterparties (paragraph 250.13 A1).</p> <p>We believe that the 'closeness of the relationship' between an accountant and his or her family members is subjective and therefore will invariably create difficulties in determining whether there is improper intent in respect of the inducement. For example, an inducement offered to a sibling of the Chief Finance Officer (CFO) of a company by its supplier that is in the process of renewing its contract with the company should raise a question as to the intent of the inducement, regardless of the 'closeness of relationship' between the CFO and his/her sibling.</p> <p>We acknowledge that section 250 is applicable to PAIBs. However, we believe that, in principle, the factors relevant to inducements involving family members should be consistent with the factors relevant to threats created by family and personal relationships in audit and other assurance engagements (sections 521 and 921 in the restructured Code).</p> <p>Relationships of an accountant with immediate and close family members will create threats to his or her independence in performing audit/assurance engagements, regardless of the degree of closeness between the accountant and his or her family members. In a similar manner, the offering of or accepting inducements by immediate and close family members of an accountant should raise concerns as to the intent of the inducement.</p> <p>We recommend that the IESBA reconsider this matter and amend the relevant paragraphs, as appropriate.</p> <p>Professional competence and due care</p> <p>We agree that offering or accepting inducements might create threats to compliance with the fundamental principles of integrity, objectivity and professional behaviour (paragraph 250.2).</p> |

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| | | <p>We recommend the addition of the fundamental principle of professional competence and due care, as we believe that offering or accepting inducements might also create threats to an accountant’s compliance with this principle. For example, an inducement may incentivise an accountant to undertake professional activities for which they do not have the necessary expertise or experience.</p> <p>Trivial and inconsequential inducements with improper intent</p> <p>We strongly support the prohibition of offering or accepting inducements if there is actual or perceived intent to improperly influence the recipient’s behaviour (improper intent), even if the inducements are trivial or inconsequential. We agree with the IESBA that there are no safeguards that can reduce threats created by inducements with improper intent in all circumstances.</p> <p>In view of this, we believe that it is important for the requirements (paragraphs R250.7 and R250.8) to clearly specify that the prohibition extends to trivial or inconsequential inducements. We suggest that paragraphs R250.7 and R250.8 be amended as follows:</p> <p>R250.7 - A professional accountant shall not offer, or encourage others to offer, any inducement that is made with the intent to improperly influence the recipient’s behaviour, even if it is trivial or inconsequential.</p> <p>R250.8 - A professional accountant shall not accept, or encourage others to accept, any inducement that the accountant has reason to believe is made with the intent to improperly influence the recipient’s behaviour, even if it is trivial or inconsequential.</p> <p>Inducements prohibited by laws and regulations</p> <p>We strongly support the requirement to obtain an understanding of and comply with laws and regulations that prohibit offering or accepting of inducements. We agree that this requirement should cover all illegal inducements, not just those related to bribery and corruption.</p> <p>We are of the view, that the current requirement (paragraph R250.5) is drafted in a manner that focuses it solely on ‘laws and regulations related to bribery and corruption that prohibit the offering or accepting of inducements’. In this regard, we suggest the following revision to paragraph R250.5 (first sentence):</p> <p>In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances.</p> <p>Inducements without improper intent</p> |

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| | | <p>Compliance with the conceptual framework</p> <p>We have observed that the provision to apply the conceptual framework when inducements are made without improper intent is in the form of an application material, without a corresponding requirement paragraph (paragraph 250.10 A1).</p> <p>We recognise that the introductory paragraphs in this section refer to the requirement for professional accountants to comply with the fundamental principles and apply the conceptual framework.</p> <p>Further, we have noted that the topic of inducements without improper intent is the only topic that did not have a corresponding requirement paragraph, as opposed to the other topics in this section.</p> <p>The above treatment may be misinterpreted to mean that the application of the conceptual framework in respect of inducements without improper intent does not have the same degree of importance as the requirements for the other topics in this section.</p> <p>To emphasise the requirement to apply the conceptual framework in these instances, we suggest that it be transformed into a requirement paragraph.</p> <p>Safeguards for threats created by inducements without improper intent</p> <p>We believe that providing examples of safeguards is helpful to professional accountants when dealing with threats created by inducements without improper intent (paragraphs 250.11 A3 and 250.11 A4).</p> <p>However, we are of the view that in the first instance, an accountant should opt not to offer or accept an inducement. This action is consistent with the conceptual framework which requires eliminating the circumstances that are creating the threats to compliance with the fundamental principles (paragraph R120.10).</p> <p>APESB concurs with the IESBA view that this option is always available to the accountant, but we strongly believe that it is important to explicitly state it in the Code and emphasise it as the first option that an accountant should take to eliminate the threats arising from inducements. We recommend that the IESBA consider adding a new paragraph to address this matter.</p> <p>Disclosure of a donation of an inducement</p> <p>We are concerned with the practical implications of the last example of a safeguard in paragraph 250.11 A3, which requires disclosure of a donation of an inducement to the individual who offered it. We recognise that in some circumstances this may be a sound undertaking. However, we believe that there will also be instances that this will place the accountant in a difficult position. We recommend that the IESBA re-consider this example, and redraft or provide more guidance as appropriate.</p> |

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| | | <p>Editorial Comment</p> <p>We suggest that the spacing between paragraphs 250.15 A2 and 250.15 A3 be fixed.</p> <p>Proposed Section 340</p> |
| 3. | AAT | |
| 4. | ANAN | <p>The Association of National Accountants of Nigeria (ANAN) supports in totality the proposals in Section 250.</p> <p>ANAN is also in full support of the proposed guidance to determine whether there is an intent to improperly influence behavior, and how it is articulated in the proposals. The reason being the comprehensive nature of the proposed revision as contained in Sections 250.7 to 250.14 A2.</p> <p>This standards when passed will deterred Accountants from accepting unsolicited gift that could influence the Accountant's judgment negatively, and thus, bring the profession to ridicule.</p> |
| 5. | BDO | <p>Overall, we support the proposal. We have one specific suggestion. In the proposal, the professional accountant is required to advise the immediate or close family <u>not</u> to offer or accept the inducement if the professional accountant has reason to believe there is intent to improperly influence or believes a reasonable and informed third party would be likely to conclude that such intent exists.</p> <p>We are concerned that this may be too broad. Our suggested revision for R250.13 is to reword it to refer to where the professional accountant has concern. Our proposed wording is:</p> <p>R250.13 Where the professional accountant is concerned that there is intent to improperly influence the behavior of the accountant or the counterparty or that a reasonable and informed third party would be likely to conclude such intent exists, the accountant shall advise the immediate or close family member not to offer or accept the inducement.</p> |
| 6. | CaSTRS | <p>CaSTRS supports the proposed guidance in section 250.11 A2 which encourages the understanding of factors that are relevant in evaluating the level of any threats created by offering or accepting an inducement. The E&Y example is a reminder that auditors must gauge many factors in offering or accepting an inducement.</p> |
| 7. | CAANZ | <p>The items listed in paragraph 250.9.A 1 are relevant factors to consider in determining whether there is actual or perceived intent to improperly influence behaviour. We note that the first bullet point refers to the "nature, frequency and value of the inducement" we would recommend the IESBA consider including timing in this bullet. We feel that the timing of an inducement is a relevant factor to consider.</p> |

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| | | <p>We would like to provide the following additional comments regarding Section 250 for the IESBA's consideration</p> <ul style="list-style-type: none"> • Paragraph R250.5 refers to "laws and regulations related to bribery and corruption". We feel that this may limit the accountant's consideration of relevant laws and regulations to only those related to bribery and corruption. We recommend that IESBA consider the following or similar amendment so that this limitation is removed, <p>"In many jurisdiction, there are laws and regulations, such as those related to bribery and corruption.. that prohibit the offering and accepting of inducements in certain circumstances."</p> <ul style="list-style-type: none"> • Many accountants work across multiple jurisdictions, as it is currently drafted R250.5 does not direct an accountant to consider all relevant jurisdictions, additional guidance could be included to address this. • We feel that the treatment of trivial and inconsequential inducements is unclear. IESBA could improve clarity in this regard by providing a decision tree to assist professional accountants or amending the Code. <p>To assist IESBA we provide the following observations and recommendations ,</p> <ul style="list-style-type: none"> o Paragraphs R250.7 and 250.8 are silent in regard to whether the inducement is trivial and inconsequential, including a specific reference in these paragraphs would improve clarity. o Paragraphs 250.10.A1, 250.14 A1, 340.10 A 1 and 340.14 A4 make reference to trivial and inconsequential but we find it difficult to understand the IESBA's intent. o If the IESBA's intent is that the conceptual framework should apply to all inducements we would recommend the following editorial changes to paragraph 250.10 A 1 "Unless an inducement is trivial and inconsequential, the requirements and application material set out in the conceptual framework apply even when a professional accountant believes the inducement was offered with there is no actual or perceived intent to improperly influence behaviour". We note that this would be a repetitive in relation to paragraph 250.1. o If the IESBA's intent is that there is a carve out for inducements that are both trivial and inconsequential and are not intended to improperly influence behaviour we recommend IESBA amend the ED and this paragraph in particular to clearly indicate that intent. o Clarity is also hampered by there not being a heading after paragraph 205.10 .A1 for paragraph 250.11.A1 to paragraph 250.11.A4 which we assume as relevant to all inducements regardless of intent. |

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| 8. | CCAB | |
| 9. | CHI | We should the proposals in Section 250. We agree with the inclusion of guidance. This is important for understanding and applying the standards in area where there can be concerns about the meaning of the terms. |
| 10. | DTT | We support the proposals in Section 250 however have included in the Appendix to this letter some suggestions for the Board's consideration to improve the clarity of the proposals in the ED. |
| 11. | EY | <p>Yes. In general we support the proposals in Section 250. We also concur with the principle that improper inducements should never be offered or accepted. However, we have a number of specific comments that are set out below.</p> <p><u>Assessing intent in all situations</u></p> <p>We concur with the principle that improper inducements should never be offered or accepted. However, we are concerned with the focus on assessing “intent” in all situations regardless of materiality, as proposed in paragraphs 22 to 24 of the explanatory memorandum. Assessing the intent of the offeror or the recipient is a matter of conjecture, particularly when the professional accountant is the recipient of an inducement, and seems an unnecessary burden for the professional accountant, particularly when the matter is trivial and inconsequential. For example, does the offer of a modest lunch after a business meeting or the gift of a branded gadget of minimal value represent an inducement or simply a courtesy? We fail to see any benefit in assessing “intent” in such situations. Rather, we believe it is appropriate to apply the conceptual framework in those situations where the matter is not trivial and inconsequential and assess whether a reasonable and informed third party would likely conclude that there was intent to improperly influence the behavior of the recipient. Accordingly, we suggest that paragraphs 250.10 A1 and 340.10 A1 be changed as follows:</p> <p>“Unless an inducement is clearly trivial and inconsequential, the requirements and application material set out in the conceptual framework shall apply in assessing whether when a professional accountant believes there is no actual or perceived intent to improperly influence behavior.”</p> <p>As a result of this change, the sub-headings “Inducements with Intent to Improperly Influence Behavior” and “Inducements with No Intent to Improperly Influence Behavior” can be removed as the focus would shift to assessing matters which are other than trivial and inconsequential.</p> |

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| | | <p><u>Clarification of items that are not considered as inducements</u></p> <p>In the explanatory memorandum, the IESBA notes that the term “inducement” in the context of the Code should be “broad and neutral” and should not have a negative connotation. However, the sections of the draft provisions that define inducements (250.4 A1 and 340.4 A1) do give a negative connotation by listing a series of examples of inducements that, generally, would be viewed as improperly influencing behavior. Paragraph 250.15 A3 correctly notes how incentives are inducements and makes reference to Section 240 of the Code which discusses performance-based incentives. Further, as noted above, does the offer of minor hospitality or a gift of little value really represent an inducement or simply a social courtesy? We recommend that the Board provide a more balanced and neutral discussion of inducements in paragraphs 250.4 A1 and 340.4 A1 by noting how incentives may be an example of a “positive” inducement and minor gifts and hospitality may represent a social courtesy rather than an inducement.</p> <p><u>Clarification of safeguards</u></p> <p>In paragraph 250.11 A3, the Board proposes as a safeguard registering inducements in a log. We suggest that this could be onerous for larger organizations if all gifts and hospitality that are offered or accepted are logged, and could be burdensome for senior management or those charged with governance (or individuals responsible for the firm’s ethical compliance in the case of PAPPs) to review. An alternative safeguard for larger organizations might be for the organization to have a policy on the acceptance of gifts and hospitality that includes a threshold below which items would be considered trivial and inconsequential. Items that are above the threshold would be subject to a “consultation” and approval with logging of the consultation and related decision. We believe that this reflects what occurs in most organizations today.</p> <p><u>Edit to paragraphs R250.12 and R340.12</u></p> <p>“A professional accountant shall remain alert to potential threats to the accountant’s compliance with the fundamental principles arising from an inducement being offered or accepted”. We suggest adding “or accepted” because the acceptance of an inducement by an immediate or close family member also creates a threat to fundamental principles.</p> |
| 12. | EFAA | <p>We note that Section R250.7 addresses the situations where inducements are made with the intention to improperly influence behavior. We question the merits of this intent test and believe it will add undue complexity to the Code. The subjective nature of perceptions combined with uncertainty as to the appropriate degree of accommodation for differing cultural and business norms is likely to prove problematic. In the determination of the acceptability of an inducement it might be better to focus on whether an inducement will likely influence rather than the intent.</p> |

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| | | While we support the need to obtain an understanding of relevant laws and regulations and complying with them (R.250.5) we wonder whether this is already adequately addressed by the fundamental principle of professional behaviour. |
| 13. | FRC | <p><u>Inducements with intent to improperly influence behaviour</u></p> <p>An inducement made to a recipient other than the professional accountant (e.g. to a close relative) could be made with the intent of influencing the behaviour of the professional accountant as well as, or instead of, the actual recipient. The proposed requirement in paragraph R250.8 should be clarified as follows:</p> <p>"A professional accountant shall not accept, or encourage others to accept, any inducement that the accountant has reason to believe is made, or that believes a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the recipient's behaviour of the professional accountant or other recipient."</p> <p>The supporting guidance (in paragraph 250.9 A 1) identifies some factors to consider in determining whether there is actual or perceived intent to improperly influence behaviour. The same list of factors is also cross referred to later as being relevant in evaluating the level of any threats created by offering or accepting an inducement with no intent to improperly influence behaviour. The general guidance given in paragraph 250.4.A 1 states that: "An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. ..." It would be helpful if some guidance was added to help clarify what is "intent to improperly influence" behaviour. Having regard to the discussion in the Explanatory Memorandum, this could be where the intent is to cause the professional accountant to be "unethical", for example, where the inducement is intended to cause the professional accountant to breach one or more of the fundamental principles.</p> <p><u>Inducements with no intent to improperly influence behaviour</u></p> <p>There are no specific requirements in this section; instead there is just guidance in paragraph 250.10 A 1 that "Unless an inducement is trivial and inconsequential, the requirements and application material set out in the conceptual framework apply when a professional accountant believes there is no actual or perceived intent to improperly influence behavior." As there are no references to inducements in the conceptual framework, we believe it would be helpful to include a specific requirement as follows before paragraph 250.10 A1:</p> |

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| | | <p>"A professional accountant shall not offer or accept, or encourage others to offer or accept, an inducement in relation to which the professional accountant believes there is no actual or perceived intent to improperly influence behaviour, unless a reasonable and informed third party would be likely to conclude the inducement is trivial and inconsequential."</p> <p>In the Explanatory Memorandum, IESBA identifies that one way threats can be addressed is if the professional accountant simply does not offer or accept the inducement. However, it explains that it does not believe there is a need to explicitly state this in the Code "as this option is always available to the professional accountant, consistent with eliminating the circumstances creating the threats under the conceptual framework." We believe this way of addressing a threat should be stated explicitly in the Code to emphasise that option.</p> |
| 14. | FSR | <p>The Ethics Committee of FSR - danske revisorer is pleased to comment on IESBA Exposure Draft Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements Proposed Revisions Pertaining to Safeguards in the Code— Phase 2 and related conforming amendments.</p> |
| 15. | GTIL | <p>GTIL supports the proposals in Section 250 and the proposed guidance to determine whether there is an intent to improperly influence behaviour and how it is articulated in the proposals.</p> <p>However, as it relates to Paragraphs R250.7 and R250.8, the reasonable and informed third party test is supposed to be an objective test based on the conclusions reached by a "reasonable and informed" third party.</p> <p>Currently the way the two paragraphs are written, lends the conclusion made by a reasonable and informed third party to be dependent on the accountant's subjectivity; allowing the accountant to argue in their own defence that a "reasonable and informed third party" would not reach an adverse conclusion in the matter.</p> <p>Accordingly, we recommend the following revisions to paragraphs R250.7 and R250.8:</p> <p>R250.7 A professional accountant shall not offer or encourage others to offer, any inducement that is made, or which the accountant believes a reasonable and informed third party would be likely to conclude is made with the intent to improperly influence the recipient's behaviour.</p> <p>R250.8 A professional accountant shall not accept , or encourage others to accept, any inducement that the accountant has reason to believe is made, or believes a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the recipient's behaviour.</p> |

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| | | <p>Additionally with respect to paragraph 250.9 A1, we believe the third bullet point which discusses “whether the inducement is an ancillary part of a professional activity, for example, accepting lunch in connection with a business meeting”, does not support the other factors to consider and in fact could instead nullify them. The professional accountant could argue that that the inducement is an “ancillary part of a professional activity”, even when the inducement is offered repeatedly or the value is such that a reasonable and informed third party would conclude that the inducement could influence the recipient’s behaviour. Accordingly, we are recommending that the Board consider removing this bullet point.</p> |
| 16. | HKICPA | |
| 17. | IDW | <p>As explained in the covering letter, the IDW has chosen not to comment specifically on the potential impact of the proposed revisions in relation to professional accountants in business. However, the general comments made in our covering letter likely apply to all professional accountants alike.</p> |
| 18. | IFAC SMPC | <p>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.</p> <p>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.</p> <p>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.</p> |
| 19. | IRBA | <p>1.1. The IRBA Code did not adopt Part C of the extant IESBA Code of Ethics. However, amendments made to Section 340 of the IESBA Code are based on Section 250.</p> |

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| | | <p>Thus, we will make comments under this section, on the understanding that it will also give rise to matching amendments to Section 340.</p> <p>Description of Inducements (Paragraph 250.4 A1)</p> <p>1.2. This is the most important part of the proposed amendments, as it defines the scope of the amendments.</p> <p>1.3. Unfortunately, the current description of inducements incorporates different concepts in a single description. This is confusing for the following reasons:</p> <ul style="list-style-type: none"> • “as a means to influence another individual’s behaviour” – There is an assumption that every form of inducement referred to in the exposure draft, even trivial and inconsequential inducements, has the ability of influencing someone’s behaviour. However, this is not true in practice, for example, there are numerous acts of hospitality for which there is no intention to influence someone’s behaviour. It would be burdensome to consider if trivial or inconsequential inducements have intent. • “individuals” – The definition does not take into account that an inducement may be offered or accepted by an entity/firm. Additionally, the inducement made to an individual may influence the entity/firm and not an individual. • “not necessarily with the intent” – The improper intent is only explained in R250.7 and R250.8, thus the reading of the description without the complete context seems disjointed. <p>Examples of Inducements (Paragraph 250.4 A1)</p> <p>1.4. All the examples of inducements listed are positive in nature. We would appreciate clarity on whether a negative action (e.g. a threat) would meet the definition of an inducement.</p> <p>1.5. The following are suggestions to add to the examples of inducements:</p> <ul style="list-style-type: none"> • Patronage; • Frequent board appointments; and • Access to information. <p>We have provided a comprehensive list in Annexure A.</p> <p>1.6. We note and agree that certain inducements do not have a monetary amount attached to them. This statement may be worth including in the amendments.</p> |

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| | | <p>Inducements Prohibited by Laws and Regulations (R250.5)</p> <p>1.7. This subheading has a relationship with Section 260 and Section 360, Non- compliance with Laws and Regulations (NOCLAR). However, a cross reference has not been included under this subsection.</p> <p>1.8. We note that requirement R250.5 is a new requirement and has not been mentioned in Section 260. The IESBA may want to consider consequential amendments to Section 260 as a result of amendments relating to inducements.</p> <p>1.9. Paragraph 250.6 A1 may be phrased as a requirement. This will give a clear direction for jurisdictions that do not have laws and regulations addressing bribes and corruption, and the appropriate course of action when faced with a bribe.</p> <p>Intent (Paragraph 250.9 A1)</p> <p>1.10. Paragraph 250.9 A1 does increase the robustness of the Code. A possible improvement is to elevate this application material to a requirement and reconfigure the paragraph as a test.</p> <p>1.11. We are uncomfortable with the view expressed in Paragraph 23 of the Explanatory Memorandum, which states that “since no one other than the person offering an inducement knows whether there is intent”. We disagree with this statement as inducements may be made by a firm, or a group of individuals, as part of a marketing or stakeholder strategy, and it is a fairly common place for recipients to be aware of the giver’s motive.</p> <p>1.12. We would encourage the following additions to paragraph 250.9 A1:</p> <ul style="list-style-type: none"> • The extent of formality, publicity and disclosure associated with the inducement. • As the independence in appearance concept is relevant to this section, the other actions of the professional accountant will be relevant, i.e. those actions immediately before and after the inducement. <p>Intent to Improperly Influence (R250.7 and R250.8)</p> <p>1.13. The distinction between an inducement with the intent to improperly influence and with intent to properly influence is unclear.</p> <p>1.14. This is mainly because the proposed amendments are silent on inducements with intent to properly influence the recipient.</p> |

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| | | <p>1.15. If by definition an inducement as a means to influence someone’s behaviour, then the amendments need to be clear regarding the circumstances under which an inducement would be acceptable, i.e. under what circumstances a professional accountant is allowed to attempt to influence someone’s behaviour where that would not be considered to be improper.</p> <p>Reasonable and Informed Third Party (R250.7 and R250.8)</p> <p>1.16. We have reservations about whether the use of the reasonable and informed third party test (RITP) is the correct test to use in this section.</p> <p>1.17. When offering or accepting an inducement, we question whether “the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant’s actions” as required by the RITP test is applicable. The appropriate test should be at a less sophisticated level. A public perception/investor test would be more appropriate. This is especially relevant since this section poses a risk to independence in appearance. The offering or accepting of an inducement is not isolated to the experience or knowledge of professional accountants. Additionally, there is very little technical expertise that is required when considering if an inducement should be accepted.</p> <p>Focus on the Individuals versus Groups</p> <p>1.18. The examples provided in Section 250 have been limited to the individual offering and accepting the inducement. However, the offering and accepting of inducements may extend to a group of individuals (e.g. management, the organisation, a firm or entity).</p> <p>1.19. Additionally, paragraphs R250.7 and R250.8 use the word “recipients”. This word suggests direct relationship between the giver and the receiver. This therefore does not incorporate the possibility that the person being influenced is someone other than the immediate recipient. This is not uncommon, where a front or proxy is used. Therefore, consideration should be given to extending this to include a third party. This is in keeping with the logic in sections that refer to “immediate or close family members”.</p> <p>Safeguards (250.11 A3)</p> <p>1.20. We noticed that none of the safeguards listed are suitable for use by small and medium practices (SMPs). We suggest that additional safeguards be included for such practices.</p> <p>1.21. We disagree with the example of a donation as a safeguard. Accepting an inducement and then donating it to charity are two separate acts and the second act doesn’t remedy the first. Additionally, a donation may give rise to a tax benefit and</p> |

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| | | <p>an elevated corporate social responsibility position, and the entity or professional accountant may inevitably benefit from the donation.</p> <p>1.22. Additional safeguards may include making reasonable effort to return the inducement to the provider thereof.</p> <p>Paragraph 250.11 A4</p> <p>1.23. We do not believe that transferring responsibility necessarily eliminates the threat. A suggestion is to remove this paragraph and rather add this example to the list of safeguards (250.11 A3).</p> <p>1.24. The subjectivity relating to the transferring of responsibility is due to the following:</p> <ul style="list-style-type: none"> • It is dependent on the relationship between the business partner and the professional accountant; • It is dependent on the closeness between the business partner and the professional accountant; • It is more likely for the business partner to understand the implications of the inducements, which may affect his judgment; and • Whether the professional accountant and the business partner have a shared department, goal, or business target. <p>1.25. The threat may even be considered greater than an inducement to an individual's family, as the business partner would be in a better position to understand the reason for the inducement.</p> <p>Immediate and Close Family Members (R250.12 and R250.13)</p> <p>1.26. This section focuses on family members. However, consideration should be given to extending it to related parties or people who are in business with the professional accountant as inducements offered or provided to these parties may also create threats.</p> <p>Declined Inducements</p> <p>1.27. We believe that there should be an inclusion of a requirement stating that a professional accountant shall not offer or accept the inducement, if the threat to the fundamental principles cannot be reduced to an acceptable level.</p> <p>1.28. The current amendments do not address the possible actions that a professional accountant should consider if inducements are offered to them but are not accepted. Alternatively, it is silent if there is any remedial action for an inducement that has been offered by them but declined.</p> |

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| 20. | ICAI | We broadly agree with the proposals in Section 250. We believe that the guidance given in the Section to determine intent of improperly influence behavior is fine. |
| 21. | ICAP | <p>ICAP Comment:</p> <p>We support the proposals covered in section 250 and believe that the proposed provisions will facilitate Professional Accountants in Business (PAIBs) in enhanced understanding and application of conceptual framework to comply with the fundamental principles.</p> <p>We support the proposed insertion of the "intent" based criteria/ test in the proposals. However, we recommend that further guidance is provided on the intent and especially the "perceived intent" mentioned in the proposals.</p> |
| 22. | IMA | We believe it is important to avoid any action or appearance of inappropriate influence over behavior or decision making. Therefore, regardless of intent or no intent, we believe in encouraging transparency and full disclosure of these types of situations within an organization. |
| 23. | IBRACON | <p>Yes, we support the proposals in Section 250. In addition, we have the following suggestions:</p> <p>(a) Trivial and inconsequential – we suggest that the trivial and inconsequential condition be explained and exemplified more clearly, in the same manner as the “with intent to improperly influence behavior” was explained and exemplified, specifically in paragraph 250.9 A1. Without a proper explanation, the conclusion may cause a reasonably informed third party to have different interpretations.</p> <p>(b) Immediate or Close Family Members – even though paragraphs 32 and 33 of the Explanatory Memorandum clarify the Accountant responsibilities in relation to the Immediate or Close Family Members and provide clarifications regarding the term “remain alert”, paragraphs 250.12 to 250.14 do not contain all these explanations, and may result in a third party having a different interpretation of the meaning of “remain alert”. Accordingly, we understand that the conditions mentioned in the Explanatory Memorandum should be introduced in the code Sections.</p> |
| 24. | Jean Thiomias Giraud | 1 support the proposals in Section 250. However, the adjectives 11 trivial and inconsequential 11 (see the paragraph 250.10 A1) joined to an inducement are subject to conflicting interpretations depending on the professional accountant or his/her situation. A professional accountant might evoke the nature of trivial and inconsequential to accept or offer an inducement |

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| | | <p>while another can have a contrary evaluation about the same inducement. In the treatment of an ethical matter about an inducement, to avoid opposite interpretations of the nature of trivial and inconsequential, it would be better the proposals to not use these adjectives.</p> <p>1 support how the proposed guidance to determine whether there is an intent to improperly influence behavior is articulated in the proposals. I support also this point 11 Whether the professional accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the counterparty's employing organization 11, at the paragraph 250.9 AI is a guidance to determine whether there is an intent to improperly influence behavior.</p> <p>For the other points of the paragraph 250.9 AI, I understand there are a list of factors. Then, they would not be enough to determine whether there is an intent to improperly influence behavior. Then, for each point of the paragraph, it would be helpful to precise further information that would facilitate the determination of the (improper or not) intent of the person who gives the inducement.</p> <p>An element that would be important to determine whether there is an intent to improperly influence behavior is the reputation of the person who gives an inducement. Is this person used to the inducement to improperly influence behavior ? Then, I suggest the addition of the reputation of the person who gives the inducement in the list of relevant elements to consider to determine whether there is an intent to improperly influence behavior.</p> |
| 25. | Ji Yuan | |
| 26. | KICPA | <p>We believe the proposals in Section 250 provides a clear-cut clarity of inducements in terms of their concept, articulating the responsibility of PAIBs in relation with inducements that include cases of the offering and accepting of inducements by immediate or close family members.</p> <p>In particular, the all-out prohibition of offering and accepting of inducements by professional accountants that are made with intent to improperly influence the behavior of the recipients, regardless of whether or not the value is trivial and inconsequential, and the provision of detailed guidance to determine whether there is actual or perceived intent to improperly influence the behavior of the recipient are believed to contribute to commitment to social responsibility demanded to professional accountants.</p> |
| 27. | KPMG | <p>During the course of our review, we noted the following instances where we believe the concepts or language in the proposed guidance should be clarified or modified:</p> |

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| | | <p>A. While we acknowledge intent exists as a concept in the extant Code as a consideration in evaluating the existence and significance of a threat created by an offer of an inducement (Section 350 Inducements), the elevation of this concept in the proposed requirements paragraphs R250.7 and R250.8 to require a professional accountant to evaluate whether there is intent to improperly influence the recipient’s behavior may be difficult to operationalize as it requires an individual to objectively assess the intent of another. If the intent test is to be a required first step in evaluating all inducements, additional guidance as to how a PA (or a RITP) can objectively assess the intent of another would be crucial to include in the final guidance.</p> <p>We suggest the proposed guidance in Section 250 focus on the potential effect of offering or accepting the inducement, as opposed to the intent of the individual offering or accepting the inducement. The language in the extant Code paragraph 350.2 regarding an offer “made in an attempt to unduly influence actions or decisions, encourage illegal or dishonest behavior, or [improperly] obtain confidential information” would be helpful to retain, with the addition of “improperly,” to broaden the focus on the concept of potential effect.</p> <p>In 250.9.A1 we would suggest adding the following sentence before the relevant factors to consider in determining actual or perceived intent to improperly influence: “Consideration as to whether there is actual or perceived intent to improperly influence behavior requires the exercise of professional judgment.”</p> <p>B. We note that when a professional accountant has no knowledge of an offered inducement, the professional accountant’s behavior, including objectivity, cannot be influenced by the inducement. The use of “remain alert” in paragraph R250.12 could be construed as a monitoring responsibility. As such, we suggest that the language in paragraph R250.12 be modified in order to clarify that this is a knowledge standard. We also note that paragraph 33 of the Explanatory Memorandum provides clarification of the knowledge standard that would be beneficial if included in this section. Further, clarification could be obtained by the addition of the words “becomes aware” or similar and rewording of paragraph R250.12 as follows:</p> <p>“When a professional accountant becomes aware of an inducement being offered:</p> <p>(a) By an immediate or close family member of the accountant to a counterparty with whom the accountant has a professional relationship; or</p> <p>(b) To an immediate and close family member of the accountant by a counterparty with whom the accountant has a professional relationship,</p> <p>the professional accountant shall remain alert to potential threats to the accountant’s compliance with the fundamental principles arising from such inducement being offered.”</p> |

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| | | <p>C. We believe providing context to the meaning of “improperly influence,” as used throughout Section 250, would help to clarify how a PA determines whether there is actual or perceived intent to improperly influence. In extant Code paragraph 350.2, the examples provided are “to unduly influence actions or decisions, encourage illegal or dishonest behavior, or obtain confidential information.” At a minimum, we suggest that these examples be retained with the addition of “improperly” before “obtain confidential information” in the proposed guidance. It would also benefit the PA to have additional examples that further explain the intended scope and targeted behaviors encapsulated by “improperly influence.”</p> |
| 28. | MIA | <p>In general, we support the proposals in Section 250 as well as the proposed guidance to determine whether there is an intent to improperly influence behaviour and how it is articulated in the proposals.</p> <p>However, in order to enhance the clarity of the definition for ‘inducement’, we propose that Paragraph 250.4 A1 be presented as follows:</p> <p>“An inducement:</p> <ul style="list-style-type: none"> • is an object, situation or action that is used as a means to influence another individual’s behavior; • is not necessarily used with the intent to improperly influence an individual’s behavior; and • can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations. <p>An inducement can take many different forms, for example:</p> <ul style="list-style-type: none"> • Gifts. • Hospitality. • Entertainment. • Political or charitable donations. • Appeals to friendship and loyalty. • Employment opportunities. • Preferential treatment. |

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| | | <ul style="list-style-type: none"> • Facilitation payments.” <p>In addition, we believe that Paragraph 250.10 A1 should be a requirement instead of an application material. Although a professional accountant believes that there is no actual or perceived intent to improperly influence behaviour, he shall apply the requirements and application material set out in the conceptual framework when an inducement is significant and consequential. The same applies to Paragraph 340.10 A1.</p> |
| 29. | NASBA | <p>Yes. NASBA supports the proposals in Section 250 and offers the following suggestions:</p> <p>a. We believe this section would be stronger, and therefore more enforceable, if the following change would be made to Section 250.4.A.1 which we believe makes it more clear what improper influence entails as follows:</p> <ul style="list-style-type: none"> i. “An inducement is an object, situation, or action that is used as a means to influence another individual’s behavior. An inducement may (but would not necessarily) be given with the intent to improperly influence an individual’s behavior, such that the recipient would be expected to act in a manner that is inconsistent with the fundamental principles. Inducements can range... (as written).” ii. This same change should be incorporated in Sec. 340.4 A1. <p>b. In section 250.9 A1, add as factors:</p> <ul style="list-style-type: none"> i. “The manner in which the inducement is offered, for example, whether in secret/strict confidence.” ii. “Whether there is the expectation of quid pro quo.” <p>c. In section 250.11 A4, add the following as an example of how to eliminate the threat:</p> <ul style="list-style-type: none"> i. “Do not offer or accept the inducement.” <p>d. In section R250.12 and 250.13 A1, we suggest the use of “an individual” or “the individual” in place of “a counterparty” or “the counterparty” as the term “counterparty” may be interpreted more narrowly than intended (i.e., pertain only to financial transactions).</p> |
| 30. | NYSSCPA | |

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| 31. | NZAuASB | <p>The mandate of the NZAuASB is to set auditing and assurance standards, including professional and ethical standards, for assurance practitioners in the provision an assurance engagement. Accordingly, the NZAuASB makes no comment on the provisions applicable to professional accountants in business.</p> |
| 32. | PWC | <p>We agree with the broad objective of promoting ethical behaviour and we offer full support to the principle in R250.5 that the Professional Accountant (PA) must comply with laws and regulation related to bribery and corruption. Furthermore, we believe it appropriate to hold accountants to a standard that recognizes that, even if not a violation of laws and regulations, a threat to the fundamental principles might be created when there is an intent to inappropriately influence behaviour via an inducement offered or received.</p> <p>However we have a number of concerns with the proposals:</p> <ul style="list-style-type: none"> • We share the view expressed by other stakeholders, which the Board has noted in the Explanatory Memorandum, that the term “inducement” has a negative connotation and we do not believe that the clarification in the proposal helps with this. We believe that to include all gifts and hospitality under the banner of an “inducement” sends the wrong message. For example, it is difficult to understand how a small gift or gesture of hospitality can be seen as a means to influence another individual’s behaviour” but in a “proper” manner. Accordingly we do not agree with the proposed application material in 250.4 A1 or the use of the term as proposed. • The ED seems to suggest that every “act” inherently has the potential to have a motive designed to influence behaviour inappropriately, and therefore, all “acts” need be subject to the same level of initial evaluation. As drafted the proposals require the PA to go through an evaluation process of assessing intent even where the act is clearly trivial and inconsequential and this will result in individuals having to try to assess whether every act of kindness, such as a recurring cup of coffee, has an ulterior motive. We do not think this is appropriate or necessary. • While this Section does not explicitly require documentation, the proposed revision of the Conceptual Framework requires an “Overall Conclusion” based on an evaluation of threats and safeguards and thus indirectly would require the PA to document conclusions relating to every act or series of acts. This would be an onerous and unnecessary standard for certain acts as noted above. <p>Accordingly we recommend that the title of the Section be revised to “Inducements and gifts and hospitality” and that the approach be re-framed as below:</p> |

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| | | <ul style="list-style-type: none"> • The Code should recognise that most acts of gifts and hospitality are part of the normal course of doing business and reflect human interactions, are perfectly acceptable and do not need evaluation and documentation. Acts that are trivial and inconsequential should be scoped out at this initial stage. • R250.7 would apply to in relation to offers (A PA “shall not offer, or encourage others to offer, any inducement that is made, or which the accountant believes a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the recipient’s behavior”). Such inducements may involve gifts or hospitality. • A PA on receipt of an “act” should be required, based on the facts and circumstances, to consider whether the “act” (or series of acts) is or may be designed to be an inducement with intent to improperly influence behavior. Relevant factors to consider can be included, such as those in 250.9 A1. This evaluation should only be required where the facts and circumstances are such that it is likely that a “reasonable and informed third party” might conclude that there is likely to be such intent. This would predominantly have regard to the nature and value of the act (e.g. whether extravagant, excessive, or too frequent). • We believe that the factors to consider should more overtly take account of cultural differences, perhaps in the second bullet of 250.9 A1. • The requirement set out in proposed R250.8 would then apply to inducements where there is actual or perceived intent. • Other acts, not evaluated as having such intent, would only then need to be further considered if of a nature and value such that they would likely not meet the reasonable and informed third party test. <p>We support the principle inherent in R250.12 relating to acts offered to immediate and close family, subject to the same comments as above.</p> |
| 33. | NBA | The NBA endorses the comments made by Accountancy Europe (December 8th 2017) and doesn’t have any additional comments. |
| 34. | RSM | We support the Board’s proposals in Section 250 because they provide additional guidance which creates a structured and logical approach to dealing with inducements. They emphasize professional accountants’ responsibilities to comply with relevant laws and regulations and to apply the conceptual framework wherever an inducement is not prohibited by those laws |

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| | | and regulations. Specifically, we also support the proposed guidance in Section 250.9 A1 and believe that the factors to be considered in determining whether there is actual or perceived intent to improperly influence behavior are appropriate. |
| 35. | SCM | |
| 36. | ACCA | <p>We broadly support the proposals in Section 250. However, we have some significant concerns, as there are aspects of the proposals that appear to demonstrate a loss of focus and could lead to confusion. In our opinion, any changes to the Code arising out of this project will only be regarded as strengthening the Code if they are seen to add clarity.</p> <p>Offering inducements</p> <p>We support the inclusion in Section 250 of offering inducements, as well as being offered them. Indeed, we suggest the focus of the proposed changes should be the offering of inducements, which may impact the recipient’s objectivity, rather than that of the professional accountant.</p> <p>When offering an inducement, the intention to influence (or apparent intention) would suggest a lack of integrity on the part of the professional accountant, in that the offer may present a threat to the ethical principles of the counterparty. If professional behaviour is not breached by offering an inducement that is contrary to law or regulation, then the only ethical principle of the professional accountant that may be breached in offering an inducement (in actuality or in appearance) is that of integrity.</p> <p>Inducements prohibited / not prohibited by laws and regulations</p> <p>We welcome the distinction between inducements prohibited by laws and regulations and those that are not. However, the importance of obtaining an adequate understanding of the relevant laws and regulations in the jurisdiction in which the inducement is being offered should not be concealed within paragraph R250.5 (and R340.5). That understanding of relevant laws and regulations would likely need to be communicated to others (including those within the organisation) who might be subject to those laws and regulations, and so the requirement for an adequate understanding should be highlighted.</p> <p>Immediate or close family members</p> <p>We are encouraged by the exposure draft’s inclusion of the professional accountant’s responsibilities regarding the actions of third parties. The exposure draft refers to ‘immediate and close family members’, and yet the reason for restricting the population of third parties in this way is unclear. Essentially, it is the impact, or potential impact, on the professional accountant that must be considered, and not the nature of the relationship between the parties. Therefore, we do not believe that any of the three relationships identified in paragraph 250.13 A1 (and 340.13 A1) are relevant to assessing the threat to the</p> |

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| | | <p>fundamental principles, or even the assessment of the intent to influence. The only relevant factor is whether the professional accountant has been made aware of the benefit to the third party that may amount to an inducement to the professional accountant.</p> <p>Definition of inducement</p> <p>Although we understand and support the concept of inducements being expanded beyond goods and hospitality, we believe that a loss of clarity is caused by trying to encapsulate too much within the definition of ‘inducement’. In paragraph 250.4 A1 the definition requires that an inducement is something that is ‘used as a means to influence another individual’s behaviour’. However, the term is used more widely throughout the exposure draft. For example, it covers gifts etc that are not used to influence, but may be perceived as having that purpose.</p> <p>Furthermore, paragraphs 250.10 A1 to 250.11 A4 cover inducements with no intent to improperly influence behaviour, including ‘inducements’ that are ‘trivial and inconsequential’. Confusion arises because surely an ‘inducement’ that is trivial and inconsequential is not intended to improperly influence, and so would not meet the definition of ‘inducement’ in the first place. In this regard, the self-interest threat example provided in paragraph 250.11 A1 is unclear.</p> <p>Intent to improperly influence behaviour</p> <p>We welcome the proposed guidance in paragraph 250.9 A1 (and 340.9 A1) which sets out relevant factors to consider in determining whether there is actual or perceived intent to improperly influence behaviour. However, we believe this is not clearly articulated. For example, the timing (as well as the frequency) of an inducement might also indicate an intent to improperly influence behaviour. Having taken account of the various factors, it is not necessarily clear how to reach a conclusion. An opportunity exists to highlight those factors that are more likely to indicate an intent to improperly influence behaviour, and those that are more likely to indicate otherwise.</p> <p>We note that the question of whether or not the recipient is actually influenced – regardless of the donor’s intent – is not addressed within the exposure draft.</p> <p>Refraining from offering or accepting an inducement</p> <p>The explanatory material (paragraph 28) states that there is no need to explicitly state in the Code that refraining from offering or accepting an inducement is available to the professional accountant in order to eliminate the threat to the fundamental principles. We take a different view, as we believe there are occasions when (although not prohibited by law) the offer or</p> |

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| | | <p>acceptance of an inducement should not take place. Nevertheless, it would be unreasonable to believe that it is always possible to do the right thing in the heat of the moment.</p> <p>In addition, the wish to avoid offence (perhaps alluded to by the reference to cultural differences in the explanatory memorandum to the exposure draft) will mean that inducements will sometimes not be perceived as such by a professional accountant, or will be accepted due to a belief that more harm will be done by causing offence to the counterparty and rejecting the offer than by accepting it and managing the threat to the fundamental principles. In essence, the need to protect the fundamental principle of objectivity (by refusing an offer) may conflict with the need to protect the professional accountant's reputation (ie the principle of professional behaviour). If the outcome is that the offer is accepted (which may, in fact, be correct if there is no intent to improperly influence), the public perception must nevertheless be managed.</p> <p>Public perception</p> <p>With regard to the public perception, we believe this is more important than the perception of a reasonable and informed third party. The public will not be informed of all the relevant facts.</p> <p>Nevertheless, the reputation of the profession must be protected. In contrast, a reasonable and informed third party would be aware of the perception of the recipient of an inducement.</p> <p>Therefore, if the recipient does not perceive an intent to improperly influence him or her, neither does the reasonable and informed third party. Consequently, that third party perspective becomes irrelevant.</p> <p>Connected parties</p> <p>Finally, with regard to the safeguards available in respect of inducements offered by, or to, connected parties, the safeguards available to the professional accountant are severely limited. The connected party may be advised not to offer or accept an inducement, but the professional accountant cannot prevent it. The biggest problem (which is not addressed by the exposure draft) is where a connected party accepts some form of benefit. Whether there is intent or not, the connected party cannot be compelled to return that benefit or donate it to any charity.</p> <p>Furthermore, if the professional accountant is unaware that a gift, for example, has been accepted by a connected party, then it is unlikely that the gift will have been recorded anywhere, and the professional accountant will remain unaware.</p> |
| 37. | CPAC | <p>Overall, we support the proposals in Section 250 and also the proposed guidance to determine whether there is an intent to improperly influence behavior.</p> |

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| | | <p>With the objectives of the Code restructuring project top of mind, we noted the following general observations for consideration:</p> <ul style="list-style-type: none"> • The nature and location of 250.4 A1 was questioned. We believe it appears to be a definition of an inducement but it isn't located in the Glossary and we were not certain as to why it couldn't be a defined term. • 250.4 A1 precedes any requirement which seems out of order. We suggest that perhaps the information in 250.4 A1, if it should remain within the Section, could be better located in the Introduction in order that a requirement should begin the Requirements and Application Material section immediately followed by application paragraphs. • We noted a few instances where simpler, clearer language could be used such as in the use of "counterparty" (e.g., R250.12 (a)) and "whilst" (e.g., 340.11 A1 (a)). <p>In describing an inducement in 250.4 A1, we suggest the description could be enhanced as follows "An inducement is an object, situation or action that might be used as a means to directly or indirectly influence another individual's behavior". In addition, we questioned whether a commission could be considered to fit the description of an inducement. We suggest there should be some clarity in this regard and/or linkage between the sections within the Code with references to commissions to those relating to inducements.</p> <p>In considering R250.7 and R250.8, we deliberated upon the feedback received from our consultation which notably included the observation and, for some, a significant concern, that the key principle of intent may be difficult to establish for purposes of compliance and enforcement of the requirements when no evidence of intent may be obtainable from the third party providing the inducement.</p> <p>In addition, we believe that two important changes should be made to remove the apparent compromise of the reasonable and informed third party test by the subjective beliefs held by the professional accountant as follows:</p> <ul style="list-style-type: none"> • R250.7 – A professional accountant shall not offer, or encourage others to offer, any inducement that is made, or which the accountant believes a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the recipient's behavior. • R250.8 – A professional accountant shall not accept, or encourage others to accept, any inducement that the accountant has reason to believe is made, or believes that a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the recipient's behavior. |

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| | | <p>Should the above changes not be made to remove the apparent compromise of the reasonable and informed third party test by the subjective beliefs held by the professional accountant, we believe the concept of assessing perceived intent within this Section will be unworkable from a regulatory perspective. In our view, a similar change would also be required in R250.13</p> <p>In considering the relevant factors posed in 250.9 A1 when determining whether there is actual or perceived intent to improperly influence behavior, we generally found the list helpful and expect it will be of benefit to professional accountants as they exercise their professional judgment in this regard. We noted that an additional factor to consider may be the proximity between the offer of the inducement and when the event that the inducement might be deemed to influence will take place. We also noted, however, the apparent inconsistency in the proposals which state that where there is an intent to improperly influence behavior, it does not matter if the inducement is trivial or inconsequential (Explanatory Memorandum Paragraphs 22 and 24) and, at the same time, the first factor listed in 250.9 A1 includes the consideration of the nature and value of the inducement. Overall, we found that the bright line drawn within the Explanatory Memorandum regarding trivial and inconsequential inducements did not clearly appear or become so notable within the Requirements or Application Material in R250.7, R250.8 and 250.9 A1.</p> <p>In addition to the above observations concerning the ethical bar drawn with respect to trivial or inconsequential inducements made with improper intent, our consultation brought forward some views that this bright line may be unnecessarily restrictive and that the requirements should be in relation to inducements that are not trivial. One such view posited that regardless of the intent of the individual who makes the offer, a gift that is trivial and inconsequential is unlikely, even in the eyes of a reasonable person, to have undue influence.</p> <p>In considering the examples in 250.11 A1, it was noted that the most obvious and perhaps easiest to identify inducement examples were used. A suggestion would be to also include examples of some of the more abstract forms of inducements listed in 250.4 A1, such as appeals to friendship and loyalty and facilitation payments, to provide for enhanced understanding.</p> <p>Our review of 250.14 A1 suggests that a revisit may be necessary in regard to the reference to consider the application material in 250.10 A1 to 250.11 A4. Paragraph 250.14 A1 indicates that the application material in those paragraphs is relevant when the immediate or close family member offers or accepts an inducement contrary to the advice of the professional accountant in accordance with R250.13. However, we do not believe that safeguards should be relevant in these situations since it has already been determined that there is intent to improperly influence behavior. Consequently, we believe the threat should be eliminated by applying only the guidance in 250.11 A4.</p> |
| 38. | ICAGH | <p>Whiles we support the proposal, we caution that these are highly subjective and due care should be considered in applying the principles in determining whether there is an intent to improperly influence behaviour. A professional accountant should remain</p> |

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| | | <p>alert at all times to potential threats to compliance with the fundamental principles arising from an inducement being offered particularly where it is considered as trivial or based on cultural grounds.</p> |
| 39. | ICAEW | <p>Following the definition, for something to be an inducement it appears to require an intention to influence another individual's behaviour. However, the proposals also deal with issues of perception where there is no intent. If the idea is that a trivial and inconsequential gift with no intent presents an acceptable threat then this could be clearer.</p> <p>The guidance in the section on inducements not intended to improperly influence behaviour does not seem to reflect the title of the section.</p> <p>The issue of culture merits further discussion in the guidance itself. Not accepting a gift can in some cultures cause offence, similarly not offering a gift, or offering an inadequate counter-gift can be offensive. A gift should therefore not be disproportionate to the cultural norms such as to constitute an inducement, nor disproportionate to the persons involved. The key point is intention.</p> <p>Some proposed wording could say:</p> <p>"When considering if a gift might be, or might be perceived to be, an improper inducement, the professional accountant should bear in mind the cultures of the parties involved and their status within all the relevant cultures (not merely their own) when considering whether an inducement is, or might be perceived to be, improper."</p> <p>Considering safeguards, it is not always possible to do the right thing in the immediacy of a situation and some of the examples in 250.11.A3 would do little to address the perceived threat created by acceptance. For example, and connected to our comments above, the wish to avoid offence may prevail. This may be the correct decision if there is perceived to be no intent to improperly influence. Donating to charity may be acceptable to some but does not in fact necessarily result in a neutral position for the accountant, in fact it may have a positive reputational impact on the accountants business. Furthermore, some inducements cannot be donated (non-cash inducements, particularly personalised or perishable ones).</p> <p>Given the scope of the proposals it would appear that an understanding of them would need to be communicated to connected parties. This should be made clear as it is a significant development. A professional accountant may have little knowledge or influence over what a connected party chooses to offer or accept, which seems to leave very little by way of effective safeguards. The above is especially important when considering inducements prohibited by laws and regulations, the efforts made to distinguish being welcome.</p> |

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| | | <p>The exposure draft refers to ‘close family members’. In a principles based framework an inducement directed towards a wider family member could legitimately impact objectivity. Furthermore cultural differences have an impact not only on the assessment of inducement but also an individual’s concept of ‘close family’ (regardless of how it is defined). We believe the three factors to consider set out in paragraph 250.13 A1 are secondary to whether the professional accountant is actually aware of an inducement.</p> <p>The safeguards available in respect of connected parties are minimal. The professional accountants cannot prevent offer or acceptance or control subsequent behaviour. The only viable safeguard is therefore resignation, which may in itself be disproportionate.</p> <p>250.4 A1 – Employment opportunities is unduly narrow. We would suggest instead ‘commercial opportunities’ (directly or indirectly, for example by promotion of the accountant). Other examples of non-financial inducements might be helpful (eg. sense of personal value, positive online feedback, introductions).</p> |
| 40. | ICAN | <p>Yes we support the proposal in section 250. We support the proposed guidance to determine whether there is an intent to properly influence behavior. In addition, we further propose the inclusion of this factor: whether the offer of the inducement is a common practice in the industry of the employing organization. For example: procurement contract given to youths in mineral mining communities.</p> <p>On the articulation of the proposal, we propose that the factors mentioned in paragraph 250.9A1 be serialized in form of roman numerals or alphabets, instead of in bullet points.</p> |
| 41. | ICAS | <p>We are supportive of the general thrust of the proposals but highlight a number of concerns with regards to the current proposed content.</p> <p>a. Definition of “improper influence”</p> <p>We note that there is no distinction between “improper influence” and “influence”. In practical application, we believe that there may be difficulty in determining at what point “influence” crosses the line to being “improper influence”. We recognise that this is judgemental, but it is an important judgement to make. We believe it would be helpful to explicitly acknowledge this judgement, and not be silent on it.</p> <p>b. Real Life Practicalities</p> |

| # | Respondent | 1. Detailed Comment in Response to Question 1 Relating to Section 250 ¹ |
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| | | <p>The proposals do not acknowledge the way people behave in real life. For example, timing is important - if a gift arrives just before a contract is completed that could be viewed as being intended to improperly influence, and therefore inappropriate. Similarly, an inducement being offered in advance – but not being given until after the decision has been taken - can also be influential. The outcome of the influence or hospitality is important.</p> <p>c. Definition of trivial</p> <p>Also, what is “trivial”? It is all relative – something could be trivial to one person, but not to another.</p> <p>d. Creeping Influence</p> <p>There is also a need to consider “creeping” influence. We acknowledge that the first bullet of paragraph 250.9 A1 notes “The nature, frequency and value of the inducement” as a factor to consider. However, we believe there needs to be more emphasis on being aware that “creeping influence” could be a potential issue.</p> <p>For example, if one member of a team receives a gift, that might be considered “trivial and inconsequential”; however, if every member of the team receives a gift, that could potentially be influential, and inappropriate.</p> <p>There is a need for professional accountants to have a broader perspective, and not just to look at events in isolation.</p> <p>Offer or acceptance of an inducement that is “trivial and inconsequential” if it is made with improper intent</p> <p>Paragraph 24 of the Explanatory Memorandum states the following: “The IESBA deliberated whether it is acceptable to offer or accept an inducement that is “trivial and inconsequential” if it is made with improper intent. The IESBA noted that academic research indicates that even a gift having little intrinsic value might still affect the recipient’s behaviour. On this basis, the IESBA proposes that as a matter of principle no exceptions should be made in this regard.”</p> <p>We agree with IESBA’s view in the above paragraph that there should be no exceptions when it is believed that an inducement is made with improper intent, however we note that the proposed new paragraphs R250.7 and R250.8 do not explicitly state that even inducements which are “trivial and inconsequential” where there is or is perceived to be improper intent are not permitted. For increased transparency, we believe that it would be beneficial to the users of the Code for these paragraphs to make an explicit statement in this regard.</p> <p>f. Inducements with no intent to improperly influence behaviour – addressing a threat by simply not offering or accepting an inducement</p> |

| # | Respondent | 1. Detailed Comment in Response to Question 1 Relating to Section 250 ¹ |
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| | | <p>Paragraph 28 of the Explanatory Memorandum states the following: “Notwithstanding the above proposed guidance, the IESBA believes that threats can also be addressed if the professional accountant simply does not offer or accept the inducement. As this option is always available to the professional accountant, consistent with eliminating the circumstances creating the threats under the conceptual framework, the IESBA does not believe there is a need to explicitly state it in the Code.”</p> <p>We agree that generally threats can also be addressed if the professional accountant simply does not offer or accept the inducement. However, for the sake of completeness and to highlight this option to users, we disagree with IESBA’s proposal not to include wording to this effect in the Code. Rather we believe that, for increased transparency, there is a need to explicitly state this within paragraph 250.11 A3 the Code as a reminder to professional accountants</p> <p>g. Professional Behaviour – Definition</p> <p>Paragraph 250.3 states:</p> <p>“Section 250 sets out requirements and application material relevant to applying the conceptual framework in relation to the offering or accepting of inducements that does not constitute non- compliance with laws and regulations. This section also requires a professional accountant to comply with relevant laws and regulations when offering or accepting inducements.”</p> <p>We question whether the requirement to comply with relevant laws and regulations originates from the “Non-compliance with laws and regulations (NOCLAR)” sections of the Code. Rather, we believe it more properly originates from the fundamental principle of “Professional Behaviour” i.e.</p> <p>“Professional Behaviour - To comply with relevant laws and regulations and avoid any conduct that discredits the profession.”</p> <p>We also believe that this further highlights the crucial importance of the fundamental ethics principles.</p> <p>h. Example (c) in paragraph 250.11 A1</p> <p>Example (c) in paragraph 250.11 A1 states the following:</p> <p>“(c) Intimidation threats</p> <ul style="list-style-type: none"> • A professional accountant accepts hospitality that would be perceived to be inappropriate were it to be publicly disclosed.” |

| # | Respondent | 1. Detailed Comment in Response to Question 1 Relating to Section 250 ¹ |
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| | | <p>We believe this is an example of a situation where the level of threat is so great that there is no need for any further consideration – i.e. a professional accountant should not accept hospitality “that would be perceived to be inappropriate were it to be publicly disclosed.”</p> <p>We believe this example therefore needs to be revised to better reflect a situation where reference would be required to the conceptual framework. For example: “A professional accountant is offered hospitality, the quantitative value of which is not significant, but the nature is such that it might be perceived to be inappropriate were it to be publicly disclosed.”</p> <p>This amended example would also serve to highlight that factors other than quantitative factors should be taken into consideration when determining whether a threat exists, and the appropriate action to be taken.</p> <p>i. Safeguard – Donation to Charity</p> <p>Paragraph 250.11. A3 notes the following safeguard:</p> <p>“Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to those charged with governance or the individual who offered the inducement.”</p> <p>We question whether this example is actually a safeguard. It is questionable whether this actually removes the threat as the professional accountant has still accepted the inducement and could possibly choose the charity which is to benefit which of course may have some association with a related party.</p> <p>j. Pre-emptive Safeguard</p> <p>Paragraph 250.11. A3 notes the following safeguard:</p> <p>“Registering the inducement, whether offered or accepted, in a log monitored by senior management or those charged with governance for the purposes of transparency.”</p> <p>We also believe that there is a need for a “pre-emptive” safeguard rather than just a “reactive” safeguard i.e. seeking consent from an appropriate individual prior to offering or accepting the inducement, as well as registering an inducement after it has been received.</p> <p>k. Awareness of Inducements where Immediate or Close Family Members are involved</p> <p>In terms of possible inducements being offered or accepted by immediate or close family members, there appears to be a presumption that the professional accountant would be aware of such a situation, this need not necessarily be the case. We question whether the content in paragraph R250.12/R250.13 needs to specifically state that the professional accountant only</p> |

| # | Respondent | 1. Detailed Comment in Response to Question 1 Relating to Section 250 ¹ |
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| | | <p>needs to act upon potential threats that have come to his or her attention, and does not need to specifically enquire of immediate or close family members as to their personal business (which may in and of itself breach confidentiality).</p> <p>I. Trivial and Inconsequential</p> <p>We also believe that there would be merit in including a statement to the effect that inducements offered or accepted which are trivial and inconsequential, and where there is no improper intent, can be offered or accepted.</p> |
| 42. | JICPA | <p>As what the proposed section 250 covers should be limited to the offering or accepting of inducements in the course of carrying out professional activities within the employing organization, we are of the opinion that it should be explicitly articulated in the proposed section. In order to make it clarified, referring to paragraph 360.1 in section 360 (Responding to Non-Compliance with Laws and Regulations) in the extant Code, adding “in the course of carrying out professional activities” to paragraph 250.6 A1 is to be considered, for example;</p> <p>360.1</p> <p>A professional accountant in business may encounter or be made aware of noncompliance or suspected non-compliance with laws and regulations in the course of carrying out professional activities. (The rest is omitted)</p> <p>Proposed amendment to Section 250</p> <p>250.6 A1</p> <p>In the course of carrying out professional activities, the offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.</p> <ul style="list-style-type: none"> • In paragraph 250.13 A1, “the nature or closeness of the relationship between a professional accountant and the counterparty” is set out as one of the relevant factors to consider in determining whether there is actual or perceived intent to improperly influence the behavior of the professional accountant or the counterparty when an inducement is offered by or to an immediate or close family member of a PAIB. This factor should be added to paragraph 250.9 A1, because it is also relevant in determining whether there is such intent when an inducement is offered by or to a PAIB. |
| 43. | SAICA | <p>SAICA supports the new guidance. We refer to specific sections:</p> <ul style="list-style-type: none"> • S250.4 A1 This guidance aligns with the Extant code S350.1 (inducements receiving offers) but expands it to include Preferential treatment, entertainment, facilitation payments and donations and employment opportunities so this adds to the |

| # | Respondent | 1. Detailed Comment in Response to Question 1 Relating to Section 250 ¹ |
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| | | <p>Extant code and the guidance is helpful and clear. Inducements by promising people employment opportunities or enriching recipients through donations or facilitation payments are powerful incentives used to induce. These examples are very relevant.</p> <ul style="list-style-type: none"> • We would like to suggest that the task force consider adding the following guidance in S250.9 A1 to read “Consideration of industry or local customs.” This is always an important factor that impacts perceptions and would be relevant in a global code due to diversity of cultures. • 250.11 A4 In our view it may be clearer if the safeguard guidance material in the sentence include the word “independent” to now read “...is transferring the responsibility for any business related decision involving a counterparty to another “independent” individual...” This will ensure that the person making the decision should be independent of the person receiving the inducement – despite perceived or actual perceptions of impartiality. • R250.12 With reference to immediate or close family member, we would suggest that it is important that the words “as defined in the code” is added to ensure the user applies the defined definition of immediate family member when applying the code which includes spouse equivalents and other dependents. • The defined term in code found under definition of Immediate family is “A spouse (or equivalent) or dependent”. This will highlight the fact to a user of the Code that an “equivalent/dependent” are included in the interpretation of “close and immediate family member” for example a life partner. • 250.13 Another factor that is relevant is the nature or closeness of the relationship. Although the Code defines close family the use of the terms “closeness of the relationship” is not clear. The question that has arisen is how closeness can be assessed or evaluated. This could also impact the professional accountant as the professional accountant cannot always assess or account for actions taken by close family members. • We would also suggest that the taskforce consider including a requirement paragraph before listing the examples of other sections to be considered in R250.15 , it could read “When a PA offers or receives inducements all relevant sections of the Code of Ethics must be considered, a PA should refer to the relevant guidance found in other sections of the code examples may include:...” <p>Editorial comments</p> <ul style="list-style-type: none"> • Correct the spacing between 250.15 A2 and 250.15 A3 • S250.3 ...offering or accepting inducements that does not... should be changed to ...offering or accepting inducements that do not... |
| 44. | VRC | |
| 45. | GOA | We support IESBA’s proposed general approach for dealing with inducements, including |

| # | Respondent | 1. Detailed Comment in Response to Question 1 Relating to Section 250 ¹ |
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| | | <p>a) requiring the accountant to understand and comply with relevant laws and regulations;</p> <p>b) prohibiting the accountant from offering or accepting inducements if there is actual or perceived intent to improperly influence the behavior of the recipient; and</p> <p>c) requiring the accountant to apply the conceptual framework to identify, evaluate, and address any threats to compliance in the absence of actual or perceived intent to improperly influence behavior, unless the inducement is trivial or inconsequential.</p> <p>We also support the list of additional safeguards in paragraph 250.11 A3 and the clarification of the accountant’s responsibility to remain alert to inducements being offered by or to an immediate or close family member in paragraph R250.12.</p> <p>However, we believe that the proposed standard could benefit from additional application guidance. Specifically, we suggest adding a list of relevant factors that accountants should consider in determining whether an inducement is trivial or inconsequential. We also suggest incorporating guidance from extant paragraph 350.4 that “real or apparent threats to compliance with the fundamental principles do not merely arise from acceptance of an inducement but, sometimes, merely from the fact of the offer having been made” to further clarify the circumstances when an inducement may create a threat to compliance with the fundamental principles.</p> |
| | WPK | <p>As already stated in our general remarks, we question the concept of the ‘intent test’ in R 250.7 and R 250.8, and do not see how it properly fits into the threats and safeguards approach of the conceptual framework.</p> <p>The proposed amendments add undue complexity by requiring questioning the intent of the offeror and deciding whether the intent to influence the receiver’s behaviour is proper or improper. The relevant factors to consider in this context in 250.9 A1 do not seem to be sufficiently decisive. Especially since this decision shall be made from (a) the accountant’s view as well as from (b) the view of an informed third party and, both, for (c) actual and (d) perceived intent.</p> <p>Conceptually the ‘intent test’ does not seem to match with the overall concept of compliance with the fundamental principles and the threats and safeguards approach of the Code. In our view, inducements that are not trivial and inconsequential can be considered or at least perceived as provided with the intent to influence behavior, and thus threaten the fundamental principles of integrity and objectivity. Except for trivial and inconsequential inducements, we think it should not matter whether the intent</p> |

| # | Respondent | 1. Detailed Comment in Response to Question 1 Relating to Section 250 ¹ |
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| | | <p>of the inducement was to proper or improper influence the behaviour of the receiver. If the inducement impairs the objectivity or integrity of the receiver, it poses a threat – no matter of the intent.</p> <p>Furthermore, we question whether ‘intent’ is an appropriate criterion. In particular, where an inducement is trivial and inconsequential it will be difficult for a practitioner to understand how such an inducement can be perceived as having an intended influence on the recipient’s behavior.</p> <p>With a view to bribery and corruption we support the importance of obtaining an understanding of relevant laws and regulations and complying with them (R.250.5). However, as mentioned above, this requirement is from our understanding already covered by the fundamental principle of professional behaviour.</p> <p>From our perspective the examples of safeguards (250.11 A3) seem to be only of limited help, especially from an SMP perspective with limited staff resources. We also think that donating the inducement to charity is no adequate safeguard, especially when donation might bring about other benefits for the professional accountant, like advantages in reputation or taxation of the donor. Additionally the best safeguard in this context – and we recommend adding it to the list – seems to be that the professional accountant simply does not offer or accept the inducement.</p> |

Question 2

Proposed Section 340

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?

| # | Respondent | Detailed Comment in Response to Question 2 Relating to Section 340 ² |
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| 1. | AE | <p>We agree that there should be no distinction the proposed provisions relating to inducements for PAPPs and those for PAIBs.</p> <p>We refer to our concerns expressed above regarding the new concept of being objective in appearance for PAIBs.</p> |
| 2. | APESB | <p>Yes, we agree with the proposed alignment of provisions in Section 250 for PAIBs with those in Section 340 for PAPPs. Most paragraphs in Section 250 have replicate content in Section 340. Please refer to our comments in question 1 in relation to:</p> <p>(a) Nature of relationship with family members - for paragraph 340.13 A1 Similar to our comments in question 1, we believe that the ‘closeness of relationship’ of the accountant with his/her family members is a subjective concept and should <u>not</u> be a factor in determining whether there is improper intent in the inducements.</p> <p>We are also of the view that, in principle, the factors relevant to inducements involving family members should be consistent with the factors in evaluating the threats created by family and personal relationships in the independence section of the Code (sections 521 and 921 of the proposed restructured Code).</p> <p>(b) Professional competence and due care – for paragraph 340.2 (c) Trivial and inconsequential inducements with improper intent – for paragraphs R340.7 and R340.8 (d) Inducements prohibited by laws and regulations – for paragraph R340.5 (e) Inducements without improper intent</p> <ul style="list-style-type: none"> • Compliance with the conceptual framework – for paragraph 340.10 A1 • Safeguards for threats created by inducements without improper intent – for paragraphs 340.11 A3 and 340.11 A4 • Disclosure of a donation of an inducement – for paragraph 340.11 A3 (last bullet point) |
| 3. | AAT | <p>AAT supports the proposals and supports the clarifications in relation to inducements not necessarily requiring an improper intent, but also the detailed guidance on where such an intent may be identified</p> |

² Where there is a blank space in the comment column, it means the respondent did not provide any response.

| # | Respondent | Detailed Comment in Response to Question 2 Relating to Section 340 ² |
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| 4. | ANAN | <p>ANAN agrees that the proposed provisions relating to inducements for PAPPs should be aligned with the provisions of PAIBs in Section 250 because ANAN believes that both PAPPs and PAIBs are exposed to the same working conditions and situations.</p> <p>The Association also agrees that the proposals in Section 340 achieve this objective because of its adequacy.</p> |
| 5. | BDO | <p>Yes, we agree that the enhanced provisions should be aligned and we agree that the proposals have achieved this objective, subject to the inclusion of the suggestion noted above.</p> <p>We would also encourage adding in the requirement to inform those charged with governance at our clients of any inducements offered and received.</p> |
| 6. | CaSTRS | <p>Yes, we believe Section 340 achieves this objective.</p> |
| 7. | CAANZ | <p>We agree that the proposed revisions should be aligned and believe that the IESBA has achieved this objective.</p> <p>At paragraphs 340.11 A3 we would recommend IESBA consider including raising the matter with those charged with governance as an appropriate safeguard. At paragraph 340.11 A4 disengaging from the engagement or client may also eliminate the threat.</p> |
| 8. | CCAB | |
| 9. | CHI | <p>We agree with the alignment between Section 250 and Section 340. We consider that the proposals in Section 340 achieve the objective.</p> |
| 10. | DTT | <p>We support the objective of aligning the provisions so that PAPPs and PAIBs are subject to the same requirements relating to inducements. We consider the suggestions made in respect of Section 250 are also applicable to Section 340.</p> |
| 11. | EY | <p>Yes. We agree that the provisions relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs since similar threats exist for accountants whether in business or public practice. We believe that the proposals in Section 340 achieve this objective.</p> |

| # | Respondent | Detailed Comment in Response to Question 2 Relating to Section 340 ² |
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| 12. | EFAA | <p>We agree with the alignment objective since we believe the Code should not draw a distinction between PAIBs and PAPPs. However, as explained above we question the merits of the intent test and whether one can or should apply the concept of objectivity in appearance for PAIBs.</p> <p>Examples of actions that might be safeguards to address the threats created by offering or accepting an inducement (340.11 A3) should include practical examples from an SMP environment.</p> |
| 13. | FRC | <p>Yes, for the reason given above, we agree that the proposed provisions relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs in proposed Section 250. The changes we propose above in relation to Section 250 should also be made to the corresponding paragraphs in Section 340.</p> |
| 14. | FSR | <p>The Ethics Committee of FSR - danske revisorer is pleased to comment on IESBA Exposure Draft Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements Proposed Revisions Pertaining to Safeguards in the Code— Phase 2 and related conforming amendments.</p> |
| 15. | GTIL | <p>GTIL agrees that the proposed provisions relating to inducements for PAPP should be aligned with the enhanced provisions for PAIB in proposed Section 250. We also agree that the proposals in Section 340 achieve this objective.</p> <p>We are also aware that the accountant's duty of objectivity may be subject to change and apply to various parties depending on whether the accountant is in industry or in public practice. However, for professional accountants in public practice, the proposed provisions in paragraph 340.4 A1 should not confine consideration of an inducement to the accountant – client relationship only. The provisions should also apply to all prospective clients and any person that can influence the client such as entities or persons that have control or significant influence over the client.</p> |
| 16. | HKICPA | |
| 17. | IDW | <p>In general we agree that all professional accountants, irrespective of whether in business or in private practice, should neither accept nor offer inducements of a nature intended to incite improper behavior. As noted in our covering letter we believe the third party test needs to be clearly aligned to the business environment and so there could be a difference in this area. Specifically, in many jurisdictions, it might be more likely that a professional accountant in private practice would offer and receive “normal” hospitality such as working lunch etc. than would many professional accountants in business, where this is a</p> |

| # | Respondent | Detailed Comment in Response to Question 2 Relating to Section 340 ² |
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| | | <p>social norm and part of day to day business practice. The Code should be clear about this in regard to the criteria a reasonable and informed third party should be deemed to take into account.</p> |
| 18. | IFAC SMPC | <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> |
| 19. | IRBA | <p>2.1. We support the alignment of Section 340 with Section 250, taking our comments under Section 250 into consideration.</p> <p>2.2. We acknowledge that this project started as a Part C project, thus welcome the IESBA efforts to increase the scope to include registered auditors. However, professional accountants in public practice do require a high level of awareness regarding inducements. Additionally, a higher level of objectivity is expected between a professional accountant in public practice and the client compared to a professional accountant in business and the stakeholder. The proposed amendments to Section 340 do not achieve this.</p> <p>For example, a tax advisor in public practice would be expected and will have a higher level of objectivity compared to the tax accountant (a professional accountant in business).</p> |

| # | Respondent | Detailed Comment in Response to Question 2 Relating to Section 340 ² |
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| 20. | ICAI | We feel that the proposed provisions relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs in proposed Section 250. We feel that the proposals in Section 340 are actually aligned with the Section 250. |
| 21. | ICAP | <p>ICAP Comment:</p> <p>We understand that PAIBs and PAPPs may both encounter the similar circumstances relating to the inducements. Accordingly, both have to ensure that fundamental ethical principles are complied. In consideration of this, we support the IESBA approach to align the provisions relating to inducements for PAPPs (section 340) with the enhanced provisions of PAIBs (section 250).</p> <p>We note that the proposals use the term "trivial and inconsequential" to provide the basic criteria for determining the professional accountant's response to the inducements. However, the term "trivial and inconsequential " is not defined/ explained under the proposed enhancements. Accordingly, we suggest that definition and/ or explanatory guidance is provided regarding the trivial and inconsequential.</p> |
| 22. | IMA | We do believe that proposed provisions should be aligned between PAPPs and PAIBs. The standards should be very high, and similar for both. The proposals in Section 340 appear to achieve that objective. |
| 23. | IBRACON | Yes, we agree that the proposed provisions in Section 340 should be aligned with Section 250 and the proposals in this Section achieve this objective. The suggestions above are also applicable to Section 340. We, however, note that paragraph 250.15 A3 should refer to Section 340 and not 240 if its intention is to refer to PAIBs. |
| 24. | Jean Thiomias Giraud | With the consideration of my answer at the Question 1, I totally agree that the proposed provisions relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs in proposed Section 250. I totally agree that the proposals in Section 340 achieve such objective. |
| 25. | Ji Yuan | |
| 26. | KICPA | We support that the proposed provisions in Section 340 relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs. It is expected that the alignment ensures PAPPs exercise due care in relation with |

| # | Respondent | Detailed Comment in Response to Question 2 Relating to Section 340 ² |
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| | | inducements, compared with those under the extant Code, thereby contributing to increasing objectivity when conducting audit engagements and other engagements. |
| 27. | KPMG | We agree that PAPPs should be held to the same standard in regards to the offering and accepting of inducements, and thus, the provisions for PAPPs should be aligned with the enhanced provisions for PAIBs, to include the requested clarifications in Section 250 noted in question 1 above. |
| 28. | MIA | <p>We agree that the proposed provisions relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs in proposed Section 250.</p> <p>In addition, we agree with the proposals in Section 340 except for Paragraphs 340.10 A1. For details, please see our response in Question 1 above.</p> |
| 29. | NASBA | <p>Yes, NASBA agrees that the proposed provisions relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs in proposed Section 250 and that the proposals achieve this objective. We do offer the following comments we believe will improve the section.</p> <p>a. In section 340.9 A1, add as factors:</p> <p>i. “The manner in which the inducement is offered, for example, in secret/strict confidence.”</p> <p>ii. “Whether there is the expectation of quid pro quo.”</p> <p>b. In section 340.11 A4, add the following as an example of how to eliminate the threat:</p> <p>i. “Do not offer or accept the inducement.”</p> |
| 30. | NYSSCPA | |
| 31. | NZAuASB | The PAPP may be confronted with similar circumstances relating to inducements as a PAIB. Accordingly, subject to our specific comments below, the NZAuASB agrees with the proposal to align the provisions relating to inducements for PAPPs with the enhanced provisions for PAIBs. |

| # | Respondent | Detailed Comment in Response to Question 2 Relating to Section 340 ² |
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| | | <p>The NZAuASB recognises the challenges faced by the IESBA in developing multi-jurisdictional proposals, recognising that the offering and accepting of inducements is more commonplace, and raises more difficult ethical dilemmas, in some cultures and countries than in others.</p> <p>New Zealand is a small, relatively open and egalitarian society where low-level inducements can be seen as part of normal business practice but where, at the same time, adverse perceptions about favours and privileges can easily come to public attention and be the subject of adverse comment or criticism. At the same time, New Zealand is a multicultural society where business is conducted under a variety of cultural norms. This emphasises the importance of clearly stated ethical requirements for professionals including PAPPS, but with an element of flexibility for different situations and contexts, and allowance for professional judgement.</p> <p>The NZAuASB, therefore, supports the inclusion of the “intent” test in the proposals. From the NZAuASB’s perspective as the standard setter for an assurance practitioner in the provision of an assurance engagement, the reasonable and informed third party test is critical to the PAPP’s consideration of whether an inducement is offered or accepted with an intent to improperly influence.</p> <p><u><i>Trivial and inconsequential</i></u></p> <p>The proposal uses “trivial and inconsequential” to set the bar for determining the professional accountant’s response to the inducement (see paragraph 340.10 A1). However, there is no definition of trivial and inconsequential, and the NZAuASB recommends that the IESBA include some guidance around its meaning.</p> <p>What is trivial and inconsequential, and indeed whether inducements of any kind are acceptable, will depend on the type of transaction, the broader cultural and business context, and the parties involved. For example, inducements in a procurement situation are neither trivial nor inconsequential, and should be avoided entirely, while the tender process is open or tenders are being evaluated. In other circumstances, hospitality offered to a client (such as tickets to a sporting event) could be considered trivial or inconsequential, unless the situation could be perceived as unacceptable for other reasons (for example, the client is a public sector organisation).</p> <p>The NZAuASB believes that in determining whether an inducement is trivial and inconsequential, the reasonable and informed third party test is also applicable. Particularly, in an assurance engagement, the perception that the inducement creates is critical to the assurance practitioner’s consideration of whether the inducement is acceptable on that basis. Similarly, in many countries an inducement in a public sector context may be considered as less acceptable, applying the reasonable and informed third party test, than in a private sector context. The reasonable and informed third party test can also provide a basis</p> |

| # | Respondent | Detailed Comment in Response to Question 2 Relating to Section 340 ² |
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| | | <p>for exercising professional judgement when cultural practices (such as customary gift- giving) could be seen to conflict with ethical standards.</p> <p><u>Safeguards to eliminate threats to independence</u></p> <p>Paragraph 340.11 A4 provides an example of an action that might eliminate a threat created by offering or accepting an inducement. Taking an action to eliminate a threat does not absolve the PAPP of the need to disclose the circumstances to management or, where appropriate, those charged with governance. The NZAuASB recommends that guidance be added to this paragraph to remind the PAPP of the required duty to disclose.¹</p> |
| 32. | PWC | <p>Our comments on Section 250 are equally pertinent.</p> <p>In addition, this is another area where there are linkages to the ISAs and where the IAASB should be involved to ensure consistency of approach.</p> <p>For example, the determination by an auditor that an act offered is one with intent to improperly influence the firm’s or the individual’s behaviours would clearly be one that raises potential questions about the ethical behaviour of audit client management and should be considered in the approach to planning or conducting the audit. While ISA 220 refers to remaining alert to non-compliance with ethical requirements and ISA 580 addresses a potential impact on the reliability of management representations, the essence of these proposals and the term “inducements” are not mentioned in the ISAs. Alignment of approach is desirable to avoid confusion and ensure consistency of application.</p> |
| 33. | NBA | <p>The NBA endorses the comments made by Accountancy Europe (December 8th 2017) and doesn’t have any additional comments.</p> |
| 34. | RSM | <p>When a professional accountant is offering or is offered an inducement, both PAIBs and PAPPs should comply with applicable laws and regulations as well as the fundamental principles. As such, we agree that the proposed provision relating to inducements for PAPPs should be aligned with those for PAIBs.</p> |
| 35. | SCM | <p>AOB has no objection to the proposals in Sections 250 and 340, except for the following areas:</p> <p>(i) Inconsistency in treatment of donation</p> <p>"Political or charitable donations" are identified as an example of inducement under Paras 250.4 A I and 340.4 A I.</p> |

| # | Respondent | Detailed Comment in Response to Question 2 Relating to Section 340 ² |
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| | | <p>In contrast, Paras 250.11A3 and 340.11A3 describe "donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to those charged with governance, a member of senior management of the firm, or the individual who offered the inducement" as a safeguard that can address threats created by offering or accepting an inducement with no intent to improperly influence behaviour.</p> <p>AOB is of the view that these contrasting examples will cause confusion and could result in inconsistent application of the Code. We recommend instead that inducements donated to charity be incorporated in the first example of a safeguard as follows:</p> <p>Para 250.11 A3 - "Registering the inducement, whether offered or accepted, including those donated to charity in a log monitored by senior management or those charged with governance for the purposes of transparency."</p> <p>Para 340.11 A3 - "Registered the inducement, whether offered or accepted, including those donated to charity in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance for the purposes of transparency."</p> <p>Paras 250.13 AI and 340.13 AI describe "nature or closeness of the relationship" as a relevant factor in determining whether there is actual or perceived intent to improperly influence the behaviour of the professional accountant or the counterparty. AOB recommends that IESBA defines "closeness" of relationships between the Professional accountant, immediate or close family member and the counterparty or client for clarity.</p> |
| 36. | ACCA | <p>We agree that the proposed provisions relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs, as there is no reason for the ethical principles in respect of inducements to differ between PAPPs and PAIBs.</p> <p>We believe Section 340 achieves this objective as the proposed provisions are clearly aligned to those in respect of PAIBs in Section 250. However, we believe the test for whether there is intent to improperly influence behaviour should be stricter in the case of an auditor and a provider of other assurance services. Inducements offered or accepted by auditors and providers of other assurance services should be prohibited (unless the value is trivial and inconsequential), even where there is no actual or perceived intent to improperly influence behaviour.</p> <p>Although auditors and providers of other assurance services are referred to in Sections 420 and 906 respectively (but only for gifts and hospitality), we believe Section 340 should distinguish between the offering or acceptance of an inducement in the context of an audit or assurance engagement, and the offering or acceptance of an inducement by a professional accountant</p> |

| # | Respondent | Detailed Comment in Response to Question 2 Relating to Section 340 ² |
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| | | in the context of general practice. For example, if an auditor receives an invitation to attend the wedding of an audit client, the fact that the wedding invitation arises from a 'special occasion' is irrelevant when determining whether there is actual or perceived intent to improperly influence the behaviour of the auditor. The invitation should not be accepted by the auditor. (This is, of course, a matter to be considered within the International Independence Standards.) |
| 37. | CPA Canada | We agree that the proposed provisions relating to inducements for PAPPs in Section 340 should be aligned with the enhanced provisions for PAIBs in proposed Section 250. We generally agree that the proposals in Section 340 achieve this objective and we note the relevance of our detailed comments above regarding proposed Section 250 which should also be considered integral to our response here in regard to proposed Section 340. |
| 38. | ICAGH | Yes, we agree that the same principles relating to inducements on the part of PAIBs should apply to PAPPs, and if possible strengthen them. However due to the subjective nature of the factors that might constitute inducement, due care should be taken into account in applying the principles in determining whether there is an intent to improperly influence the behavior of the professional accountant. |
| 39. | ICAEW | It makes sense to align the provisions for PAPPs with the provisions for PAIBs. We believe that the proposals in Section 340 achieve this. Whilst in 340.4 the idea of "appeals to friendship and loyalty" and "employment opportunities" are picked up as inducements the proposal then seems to concentrate on gifts. The safeguards outline in in 340.11 are largely ineffective as regards these threats we think the exposure draft could be more useful in addressing this. For example if the culture within the firm is one of client retention then the review safeguard in 340.11 is unlikely to address an issue where an employee feels pressured not to raise issues with the client. |
| 40. | ICAN | Yes, we agree that the proposed provisions relating to inducements for PAPPs should be aligned with enhanced provisions for PAIBs in proposed Section 250. However, it should also include: "whether the offer of the inducement is a common practice in the industry of the employing organization." Yes, we agree that the proposal in section 340 achieved this objective subject to our additional recommendation. |
| 41. | ICAS | We re-iterate our points made at Question 1 above. |

| # | Respondent | Detailed Comment in Response to Question 2 Relating to Section 340 ² |
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| | | <p>Additionally, in a group situation, if the inducement was to come from, for example, a director of another company within a group, which is not the client of the firm, would this be within the scope of the requirements of this section i.e. how is “client” defined? Would ‘related parties’ to the client be included within the scope of the requirements of this section?</p> |
| 42. | JICPA | <ul style="list-style-type: none"> • As it is specified in paragraph 38 in the Explanatory Memorandum that the proposed section 340 applies not only to offering and accepting of inducements between existing clients and PAPPs but also to the ones between potential clients and PAPPs1, it also should be articulated in the <ol style="list-style-type: none"> 1 It is specified in paragraph 38 in the Explanatory Memorandum that, when a PAPP offers or accepts an inducement, the counterparty would generally be a client, which is intended to be an existing or a potential client. proposed section. For example, “between existing or potential clients and professional accountants” should be added to paragraph 340.6 A1. Proposed amendment to Section 340 340.6 A1 The offering or accepting of inducements between existing or potential clients and professional accountants that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles. • In paragraph 340.13 A1, “the nature or closeness of the relationship between the accountant and the client (existing or potential clients)” is set out as one of the relevant factors to consider in determining whether there is actual or perceived intent to improperly influence the behavior of the professional accountant or the client when an inducement is offered by or to an immediate or close family member of the PAPP. This factor should be added to paragraph 340.9 A1, because it is also relevant in determining whether there is such intent when an inducement is offered by or to a PAPP. |
| 43. | SAICA | <p>Yes, we do agree they should be aligned refer to suggestions below also relevant to section 340.</p> <p>We would suggest and like the task force consider adding guidance to read in 340.9A1 “Consideration of industry or local customs.” This is always an important factor that impacts perceptions and would be relevant in a global code due to diversity of cultures.</p> |

| # | Respondent | Detailed Comment in Response to Question 2 Relating to Section 340 ² |
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| | | <ul style="list-style-type: none"> • 340.11 A4 In our view it might be clearer if the safeguard guidance material in the sentence include the word “independent” to now read “...is transferring the responsibility for any business related decision involving a counterparty to another “independent” individual...” <p>To ensure that the person making the decision should be independent of the person receiving the inducement – despite perceived or actual perceptions of impartiality.</p> <ul style="list-style-type: none"> • R340.12 With reference to immediate or close family member- we would suggest that it is important that the words “as defined in the code” is added to ensure the user applies the defined definition of immediate family member when applying the code which includes spouse equivalents and other dependents. • The defined term in code found under definition of Immediate family is “A spouse (or equivalent) or dependent”. This will highlight the fact to a user of the Code that an “equivalent/dependent” are included in the interpretation of “close and immediate family member” for example a life partner. • We would also suggest that the taskforce consider including a requirement paragraph before listing the examples of other sections to be considered in R340.15, it could read “When a PA offers or receives inducements all relevant sections of the Code of Ethics must be considered, a PA should refer to the relevant guidance found in other sections of the code examples may include:...” |
| 44. | VRC | |
| 45. | GOA | <p>We agree that the proposed provisions relating to inducements for professional accountants in public practice (PAPP) should be aligned with the enhanced provisions for professional accountants in business (PAIB) in proposed section 250, as PAPPs face similar threats resulting from inducements and should be given the same guidance. We believe that the requirements and application material included in proposed section 340 achieve this objective. Additionally, to maintain this alignment, we recommend incorporating the application guidance suggested in our response to question 1 above regarding proposed section 250.</p> |
| 46. | WPK | <p>We agree that the issue of inducements does not pertain to PAIBs only, but to PAPPs as well. Regarding the proposed amendments to Section 340, our comments made in the General Comments Section and to Question 1 (Section 250) apply here equally.</p> |

Question 3

Proposed Conforming Amendments to Independence Provisions

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

| # | Respondent | Detailed Comment in Response to Question 3 Relating to Sections 420 and 906 ³ |
|----|------------|--|
| 1. | AE | We agree that the independence provisions would need to be adapted in these sections 420 and 906 to align with the revised enhancements to the inducements provision for PAPPs. We refer to our comments above on how these enhancements should be adapted. Following up on our comments in response to question 1, a RIPT will likely conclude that gifts and hospitality with little intrinsic value but improper intent, are not seen as trivial and inconsequential and therefore never acceptable. |
| 2. | APESB | Yes. APESB supports the restructuring changes and proposed conforming amendments in proposed Sections 420 and 906. They have simplified the provisions and enhanced their clarity. |
| 3. | AAT | AAT supports the restructuring and conforming amendments in light of the changes. |
| 4. | ANAN | ANAN supports the restructuring changes and proposed conforming amendments in proposed sections 420 and 906 provided the value og the inducement is trivial and inconsequential and registering it, whether offered or accepted, in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance for the purposes of transparency. |
| 5. | BDO | Yes, we support the conforming amendments to proposed Sections 420 and 906. |
| 6. | CaISTRs | Yes, however the wording of the value of trivial and inconsequential may misguide auditors in acceptance without considering a bigger picture that may lead individuals to a conclusion of a perceived intent to improperly influence behaviour. |
| 7. | CAANZ | We are supportive of the changes to sections 420 and 906. |
| 8. | CCAB | |

³ Where there is a blank space in the comment column, it means the respondent did not provide any response.

| # | Respondent | Detailed Comment in Response to Question 3 Relating to Sections 420 and 906 ³ |
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| 9. | CHI | We agree with the restructuring changes and conforming amendments. |
| 10. | DTT | <p>We support the intention of the conforming amendments in Section 420 and 906 given the inclusion of gifts and hospitality in proposed Section 340. As noted above, it could still appear that there is a difference between the treatment of gifts and hospitality in each section as auditors and assurance practitioners can accept gifts that are trivial and inconsequential, whereas whether or not a gift is trivial and inconsequential could be irrelevant to the application of Section 340. As also noted above, we consider it would be more appropriate for Section 340 be consistent with Sections 420 and 906 with respect to the application of the trivial and inconsequential threshold to gifts and hospitality.</p> <p>If the gifts and hospitality provisions are not aligned to permit the offer and receipt of trivial and inconsequential gifts and hospitality, then we do have a concern with the inducements requirement being added into the same provision as the independence requirement. It leaves unclear whether this is now also an independence requirement (and if breached, a breach of the independence requirements). We suggest leaving the independence requirement as a standalone requirement and adding a references to Section 340 after the independence requirement as follows which would be consistent with other parts of the restructured Code:</p> <p>R420.4 (and also R906.4) In addition to complying with the requirements relating to the offering or accepting of inducements set out in Section 340, a A firm, network firm or audit team member shall not accept gifts and hospitality from an audit client, unless the value is trivial and inconsequential.</p> <p>420.4 A (and also 905 A) If a firm, network firm or audit team member is offered a gift or hospitality from an audit client, and the value is trivial and inconsequential, then the requirements set out in Section 340 also apply.</p> |
| 11. | EY | Yes. We support the restructuring changes and proposed conforming amendments in proposed Sections 420 and 906. |
| 12. | EFAA | <p>We disagree.</p> <p>As explained above we question the merits of the intent test and therefore do not support the introduction of this test by means of reference in Sections R420.4 and R906.4. The current independence requirements are sufficient. Furthermore, we do not believe one should distinguish gifts and hospitality from other types of 'contribution'. Rather all kinds of contributions are (potential) threats to the fundamental principles and should be evaluated according to the threats and safeguards approach of the conceptual framework.</p> |

| # | Respondent | Detailed Comment in Response to Question 3 Relating to Sections 420 and 906 ³ |
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| 13. | FRC | <p>We have commented on, and set out significant concerns in relation to the proposed changes to the structure of the Code in our responses to the Structure EDs. Our response here covers only the proposed conforming amendments.</p> <p>Even where not intended to be an inducement, actual or perceived familiarity threats can arise if gifts or hospitality are offered to an audit client. Accordingly, in these Sections the requirements should be extended to also prohibit the firm, network firm or audit team member from offering gifts and hospitality to an audit client unless the value is trivial or inconsequential. Further, consistent with the approach to inducements, the consideration should be made through the reasonable and informed third party lens. A suggested rewording of paragraph R420.4 is:</p> <p>"In addition to complying with the requirements relating to the offering or accepting of inducements set out in Section 340, a firm, network firm or audit team member shall not offer or accept gifts and hospitality fFem in relation to an audit client, unless a reasonable and informed third party would be likely to conclude the value is trivial and inconsequential."</p> <p>Conforming changes should also be made to paragraphs 420.2 and 420.3 to cover offering gifts and hospitality.</p> <p>Paragraphs R906.4, 906.2 and 906.3, which apply to other assurance engagements, should be amended in the same way.</p> |
| 14. | FSR | <p>The Ethics Committee of FSR - danske revisorer is pleased to comment on IESBA Exposure Draft Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements Proposed Revisions Pertaining to Safeguards in the Code— Phase 2 and related conforming amendments.</p> |
| 15. | GTIL | <p>GTIL supports the restructuring changes and proposed confirming amendments in proposed Sections 420 and 906.</p> |
| 16. | HKICPA | |
| 17. | IDW | <p>We support the restructuring changes and proposed conforming amendments.</p> |
| 18. | IFAC SMPC | <p>We support the restructuring changes and proposed conforming amendments, which are expected to be put in place.</p> |
| 19. | IRBA | <p>3.1. We support the restructuring of Sections 420 and 906. However, we are confused by the following:</p> <ul style="list-style-type: none"> • The heading should include the mention of Inducements. This will allow Sections 340, 420 and 906 to be aligned. If this amendment is not made, the registered auditor will be unaware of the relationship between the sections. |

| # | Respondent | Detailed Comment in Response to Question 3 Relating to Sections 420 and 906 ³ |
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| | | <ul style="list-style-type: none"> • It is not clear why the Section 340 (intent to improperly influence behaviour) inclusion of trivial and inconsequential inducements has not been carried over to Sections 420 and 906. • Sections 420 and 906 requirements have not been elevated in any way. Additionally, the amendments in respect of intent for trivial and inconsequential items should have been carried over from Section 240 and 340. The cross reference to the respective sections may not be easily understood. • “Trivial and inconsequential” has not been defined, thus creates a level of subjectivity. • The extension of inducements to immediate and close family members has not been included in Sections 420 and 906. <p>3.2. We question whether the relationship between Section 340 and Sections 420 and 906 is understood. Paragraphs included under the International Independence Standards are usually more stringent. However, the consequential amendments have not resulted in more stringent requirements for audit, review and assurance engagements.</p> <p>3.3. Additionally, consequential amendments relating to non-monetary inducements have not been introduced in Section 420 and 906.</p> |
| 20. | ICAI | <p>We are agreeable with the restructuring changes and proposed conforming amendments to Sections 420 and 906 to provide specific guidance for individuals performing audits, reviews and assurance engagements.</p> |
| 21. | ICAP | <p>ICAP Comment:</p> <p>We note that the proposed limited conforming amendments to sections 420 and 906 require further enhancement to achieve the desired linkage with section 340. Though, the explanatory memorandum (paragraph 41) provides explanation on the interaction between section 340 and 906. However, this linkage is not clear from the proposed conforming amendments.</p> <p>Sections 420 and 906 are titled 'Gifts and Hospitality', which are examples of Inducement. Section 340 <i>Inducement, Including Gifts and Hospitality</i> provides various examples of Inducements (Gifts, Hospitality, Political or Charitable donations, Appeals to friendship and byalty etc.) that can create threat to compliance with the fundamental principles. We believe that the</p> |

| # | Respondent | Detailed Comment in Response to Question 3 Relating to Sections 420 and 906 ³ |
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| | | <p>linkage between section 340 and related conforming amendments to sections 420 and 906 should be on the basis of the broader term, explanation and related examples of inducement. The interaction and resultant expanded sections 420 and 906 covering all/ significant inducements will allow consistent understanding and application of the provisions.</p> <p>Moreover, through paragraphs R420.4 and R.906.4 the firm, network or audit team member are prohibited to accept gifts and hospitality from audit and assurance clients unless the value is trivial and inconsequential. We suggest that the paragraphs R420.4 and R.906.4 (in the present form - covering gifts and hospitality only) are amended to explicitly state that the trivial and inconsequential gifts and hospitality are prohibited when there is improper intent.</p> |
| 22. | IMA | This appears reasonable. |
| 23. | IBRACON | Yes, we support the restructuring changes and proposed conforming amendments in proposed Sections 420 and 906. |
| 24. | Jean Thiomias Giraud | Yes, I do. However, the adjectives 11 trivial and inconsequential 11 (see the paragraphs R420.4 and R906.4) joined to the value at gifts and hospitality are subject to conflicting interpretations depending on the firm or its situation, network firm or its situation, audit team member or his/her situation. A firm or a network firm or an audit team member might evoke the nature of trivial and inconsequential to accept gifts and hospitality while another person or entity can have a contrary evaluation about the same gifts and hospitality. In the treatment of an ethical matter about accepting gifts and hospitality by firm or network firm or audit team member, to avoid opposite interpretations of the nature of trivial and inconsequential of the value of gifts and hospitality, it would be better these adjectives to be not used in proposed Sections 420 and 906. It would be better also to not use these adjectives because the negative impact (trivial or not, inconsequential or not) gifts and hospitality can have on auditors' independence in appearance. |
| 25. | Ji Yuan | |
| 26. | KICPA | We support the restructuring changes and proposed conforming amendments in Sections 420 and 906. In addition to the current proposals in Sections 420 and 906 that articulate compliance with the requirements relating to the offering or accepting of inducements set out in Section 340, it would be necessary to provide detailed explanations as to major requirements of |

| # | Respondent | Detailed Comment in Response to Question 3 Relating to Sections 420 and 906 ³ |
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| | | Section 340 in both of the sections as well to support the understanding of PAPPs performing audit and other assurance engagements. |
| 27. | KPMG | We believe the changes in Sections 420 and 906 alert a PAPP to the additional, more broadly applicable responsibilities in proposed Section 340. However, we think there might be an inappropriate conclusion that a breach of the requirements in 340 would be a breach of the independence standards. |
| 28. | MIA | We support the restructuring changes and proposed conforming amendments to proposed Sections 420 and 906. |
| 29. | NASBA | |
| 30. | NYSSCPA | |
| 31. | NZAuASB | <p>The NZAuASB supports the restructuring changes and proposed conforming amendments in sections 420 and 906, however, the NZAuASB is concerned that the proposed conforming amendments do not adequately create the required linkage with Section 340. Paragraph 41 of the explanatory memorandum clearly explains the interaction between Section 340 and Sections 420 and 906. However, this interaction is not clear from the proposed conforming amendments. The NZAuASB recommends adding a paragraph within the introduction to sections 420 and 906 to create the linkage back to section 340.</p> <p>The following wording is suggested:</p> <p>[New] Gifts and hospitality are a form of inducement. When applying the requirements and application material in this section, the professional accountant also needs to consider the requirements of Section 340 relating to the offering and accepting of inducements.</p> <p>R420.4 In addition to complying with the requirements relating to the offering and accepting of inducements set out in Section 340, aA firm, network firm or audit team member shall not accept gifts and hospitality from an audit client, unless the value is trivial and inconsequential.</p> <p>In addition, the NZAuASB recommends adding a reference to Sections 420 and 906 in Section 340 to create a two-way link.</p> <p>340.4 In addition to complying with Section 340, the professional accountant may also need to consider Section 420 or 906, as applicable, when performing an audit, review or other assurance engagement.</p> |

| # | Respondent | Detailed Comment in Response to Question 3 Relating to Sections 420 and 906 ³ |
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| | | The NZAuASB also recommends that paragraphs R420.4 and R906.4 be amended to explicitly state that when there is improper intent, the firm, network firm or audit (or review) team shall not accept gifts and hospitality even when the value is trivial and inconsequential. |
| 32. | PWC | <p>No.</p> <p>Section 340 applies to all client relationships. We support compliance with Section 340, if revised along the lines recommended in this letter, but as proposed a breach of Section 340 (due to the cross reference and the words “in addition to”) would also mean that independence and objectivity is impaired. We do not believe this is necessarily the case. It is possible to have a breach of 340 without this resulting in a breach of independence (and which would also then have to be dealt with in accordance with the breaches provisions in Part 2), especially if the person breaching the requirements of 340 has nothing to do with the assurance engagement. Clearly the matter may need discussing with the client but we do not believe that clients and audit committees would expect such ethical issues to be raised in the context of independence.</p> <p>Accordingly we recommend that no changes are made to Section 420 and 906.</p> |
| 33. | NBA | The NBA endorses the comments made by Accountancy Europe (December 8th 2017) and doesn’t have any additional comments. |
| 34. | RSM | We support the restructuring changes and proposed conforming amendments in proposed Section 420 and 906 and have no further comments. |
| 35. | SCM | AOB has no objection to the proposals. |
| 36. | ACCA | <p>We broadly support the restructuring changes and proposed conforming amendments to proposed Sections 420 and 906. These sections prohibit auditors (and reviewers) and providers of other assurance services from accepting gifts and hospitality, unless the value is trivial and inconsequential. However, it would be advisable to extend sections 420 and 906 to cover other forms of inducements such as entertainment and political or charitable donations (as listed in paragraph 340.4 A1).</p> <p>Furthermore, as stated in our response to question 2 above, we believe the Code should prohibit all inducements offered or accepted by an auditor or provider of other assurance services, even where there is no actual or perceived intent to improperly influence behaviour (unless the value of the inducement is trivial and inconsequential).</p> |

| # | Respondent | Detailed Comment in Response to Question 3 Relating to Sections 420 and 906 ³ |
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| | | We would also welcome the inclusion of guidance to assist auditors (and reviewers) in determining whether inducements are trivial and inconsequential. This might include factors such as the nature, frequency, timing and value of inducements. |
| 37. | CPA Canada | We support the restructuring changes and proposed conforming amendments in proposed Sections 420 and 906. |
| 38. | ICAGH | Yes, we support the restructuring changes and proposed conforming amendments in the proposed Sections 420 and 906 relating to audits and reviews, and other assurance services respectively. We believe that the two audit assignments should conform to the same standards. |
| 39. | ICAEW | Section 340 applies to all client relationships. We support compliance with Section 340, if revised along the lines recommended in this letter, but as proposed a breach of Section 340 (due to the cross reference and the words “in addition to”) would also mean that independence and objectivity is impaired. We do not believe this is necessarily the case. It is possible to have a breach of 340 without this resulting in a breach of independence (and which would also then have to be dealt with in accordance with the breaches provisions), especially if the person breaching the requirements of 340 has nothing to do with the assurance engagement. Clearly the matter may need discussing with the client but we do not believe that clients and audit committees would expect such ethical issues to be raised in the context of independence. Accordingly we recommend that no changes are made to Section 420 and 906. |
| 40. | ICAN | Yes, we support the restructuring changes except for the provision that an audit team member or an assurance team member can accept gift and hospitality from its clients when the value is trivial or inconsequential. We recommend that no gift or hospitality should be accepted irrespective of whether they are trivial or inconsequential. |
| 41. | ICAS | We re-iterate our point made at Question 1 above regarding “trivial and inconsequential”. |
| 42. | JICPA | We support the restructuring changes and proposed conforming amendments. |
| 43. | SAICA | Yes, we support the changes. As independence is not one of the five fundamental principles, but a very important requirement of the code it is imperative that all action by a professional accountant or the firm or network firm that affect independence are set out in the independence standard. |
| 44. | VRC | |

Inducements – Compilation of General Comments in Response to Inducements ED
IESBA Meeting (March 2018)

| # | Respondent | Detailed Comment in Response to Question 3 Relating to Sections 420 and 906 ³ |
|-----|------------|--|
| 45. | GOA | We support IESBA's restructuring changes and proposed conforming amendments in proposed sections 420 and 906. We support referencing the enhanced section 340 in requirements 420.4 and 906.4 as it will assist auditors and assurance practitioners in complying with all relevant requirements. However, consistent with our response to question 1 above regarding proposed section 250, we suggest including as application guidance a list of relevant factors that auditors and assurance practitioners consider in determining whether an inducement is trivial or inconsequential. |
| 46. | WPK | We support the restructuring changes and proposed conforming amendments |

Question 4

Proposed Conforming Amendments to Independence Provisions

4. Do respondents believe the IESBA should consider a project in the future to achieve further alignment of Sections 402 and 906 with proposed Section 340? If so, please explain why.

| # | Respondent | Detailed Comments to Question 4 Relating to Future Project ⁴ |
|----|------------|--|
| 1. | AE | We do not see any reason for such future project. The current requirements are sufficient and clear. |
| 2. | APESB | APESB is of the view that there are no significant matters that would necessitate the undertaking of a future project to achieve further alignment of Sections 420 and 906 with proposed Section 340. |
| 3. | AAT | AAT agrees that maximum alignment, regardless of the type of professional being focussed upon, is beneficial. However, without greater detail on what is currently considered 'non-aligned' it would be difficult to support a new project. |
| 4. | ANAN | ANAN believe that the IESBA should consider a project in the future to achieve further alignment of Sections 420 and 906 with proposed Section 340 because it is the believe of the IESBA that the proposals represent a significant strengthening of the extant provisions and guidance relating to the offering and accepting of inducements, and will contribute to further enhancing public trust in the profession. |
| 5. | BDO | No. We do not believe a future project is required. We believe that the current proposed alignment is sufficient. |
| 6. | CaISTRs | No, we believe the guidance provides the needed alignment. |
| 7. | CAANZ | No, we do not feel that there are significant matters that would warrant the commencement of a project at this stage. |
| 8. | CCAB | |
| 9. | CHI | IESBA should consider a further alignment project. It is important that the independence standards for audits, reviews and other assurance standards are aligned with the standards for professional accountants in public practice. |

⁴ Where there is a blank space in the comment column, it means the respondent did not provide any response.

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| 10. | DTT | Yes, in line comments above. We also note that Sections 420 and 906 do not include references to offering gifts or hospitality to audit and assurance clients, nor restrictions on immediate and close family members offering or accepting gifts or hospitality. Without more closely aligning the independence provisions to the concepts in Section 340, the resulting outcome could be confusing to apply when you are an auditor or assurance practitioner or their immediate or close family. |
| 11. | EY | Yes, we do believe that a more comprehensive alignment of Section 340 and Sections 420 and 906 would be useful. The current Sections 420 and 906 focus on the threats to independence created when a professional accountant performing an audit or assurance engagement accepts an inducement. However, threats to independence may also be created when inducements are offered. For example, the offering of inducements that are not trivial and inconsequential to an officer of an audit client may be indicative of an inappropriately close relationship. |
| 12. | EFAA | We don't believe such a project is necessary. The current requirements are sufficient and clear. In our response to the IESBA Strategy Survey we recommended deferring any new changes to the Code until after the completion of the restructuring project and encouraged the Board to prioritize conducting a post implementation review before undertaking any new projects. |
| 13. | FRC | Subject to reflecting the amendments we propose in our response to question 3, we do not believe that a project is necessary to further align Sections 402 and 906 with proposed Section 340. Section 340 covers inducements, including where they take the form of gifts and hospitality. However, not all gifts and hospitality will necessarily be intended to be inducements to influence behaviour, they may for example be simply a "thank you". Nonetheless, such gifts and hospitality can still give rise to threats or perceived threats to independence and it is appropriate that they are also considered in this context as is in effect done in Sections 402 and 906. |
| 14. | FSR | The Ethics Committee of FSR - danske revisorer is pleased to comment on IESBA Exposure Draft Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements Proposed Revisions Pertaining to Safeguards in the Code— Phase 2 and related conforming amendments. |
| 15. | GTIL | GTIL believes IESBA should consider a project in the future to achieve further alignment of Sections 420 and 906 with proposed Section 340 as it pertains to the provisions in Section 340 applicable to immediate and close family members. The current guidance in the requirements of Section 420 prohibits a firm, network firm or an audit team member from accepting gifts and hospitality from an audit client unless the value is trivial and inconsequential. The current guidance in the requirement of Section 906 prohibits a firm or an assurance team member from accepting gifts and hospitality from an assurance client |

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| | | <p>unless the value is trivial and inconsequential. However, there are no prohibitions in either section which would preclude an immediate or close family member of the audit or assurance team from accepting gifts or hospitality from the audit or assurance client that is not trivial or inconsequential.</p> <p>Therefore, we are recommending the Board consider including in Sections 420 and 906 provisions which would prohibit immediate and close family members of audit and assurance team members from accepting gifts or hospitality from an audit or assurance client that is not trivial or inconsequential.</p> |
| 16. | HKICPA | |
| 17. | IDW | <p>We do not see any urgent need for a project to align Sections 420 and 960 with Section 340. In line with the IDW's response to the IESBA Strategy Survey we would urge the IESBA to conduct a post implementation review before initiating a new project in this area.</p> |
| 18. | IFAC SMPC | <p>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.</p> |
| 19. | IRBA | <p>1.1. We encourage the Board to align Sections 420 and 906 with the proposed Section 340 under this current Inducement project.</p> <p>1.2. We encourage the Board to deal with all amendments relating to inducements under this project. The amendments suggested are not extensive enough to warrant a standalone project on the topic. Additionally, it would be more efficient for a firm to deal once with implementation and maintenance costs relating to internal awareness and training initiatives and the updating of internal policies and methodologies relating to inducements.</p> |
| 20. | ICAI | <p>As mentioned at s.n. 41 of this ED, while Sections 420 and 906 do not prohibit auditors and assurance practitioners from accepting gifts and hospitality from audit and assurance clients that are trivial and inconsequential, they should still apply Section 340 to determine whether such gifts and hospitality can be accepted. If they determine that the trivial and</p> |

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| | | <p>inconsequential gift or hospitality is being offered with improper intent, Section 340 would prohibit them from accepting that gift or hospitality.</p> <p>While it may be fine to consider a project in the future to achieve further alignment of Sections 402 and 906 with proposed Section 340, for now it would be good to include in the Sections 420/906 the guidance as mentioned at s.n 41 .</p> |
| 21. | ICAP | Further, to our response to question 3, we understand that IESBA should consider further alignment of provisions of section 340 with section 420 and 906. This is suggested due to the reason that various new areas have been discussed in section 340 and the conforming amendments to sections 420 and 906 would be necessary for better alignment, clarity and application. |
| 22. | IMA | This would not appear necessary. |
| 23. | IBRACON | Yes. We believe that the analyses of the requirements presented in Section 340, related to receive and provide inducements should also be included in the Sections 420 and 906 in order to address the main concerns about independence in situations of receiving or providing inducements |
| 24. | Jean Thomas Giraud | No, I don't. By the way, I understand the question concerns the Section 420 and not 402. |
| 25. | Ji Yuan | |
| 26. | KICPA | The proposed provisions in Section 340 are believed to provide sufficient guidance in relation with auditors and assurance practitioners. If what we suggested in the Q3 is reflected, additional project is considered unnecessary, as we believe. |
| 27. | KPMG | While it may provide additional clarity to further align Sections 402 and 906 with proposed Section 340, we do not believe this to be a priority project. |
| 28. | MIA | We believe that the amendments in proposed Sections 420 and 906 are well aligned with proposed Section 340. In the event that the IESBA undertakes a project on further alignment of Sections 420 and 906 with proposed Section 340, it should only be carried out after the Structure of the Code project is completed. |
| 29. | NASBA | |

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| 30. | NYSSCPA | |
| 31. | NZAuASB | <p>The NZAuASB is of the view that further alignment of Sections 402 and 906 is needed now, rather than in the future. The title of Section 340 is “Inducements, including gifts and hospitality.” Gifts and hospitality are provided as an example of an inducement in paragraph 340.4 A1.</p> <p>Accepting or offering any form of inducement to an assurance client will create a threat to independence. It is not clear why one type of inducement, i.e., gifts and hospitality, is singled out and treated differently to other forms of inducements. The NZAuASB believes that Sections 402 and 906 should address all inducements, rather than only gifts and hospitality. Expanding Sections 420 and 906 to address all inducements will promote consistent application of the provisions, remove any inconsistency, and create a clear link to Section 340. In the short term, this could be achieved by expanding the scope of Sections 420 and 906 to “inducements, including gifts and hospitality”.</p> |
| 32. | PWC | No, please see above. |
| 33. | NBA | The NBA endorses the comments made by Accountancy Europe (December 8th 2017) and doesn’t have any additional comments. |
| 34. | RSM | We do not believe that it is necessary to have a project in the future to achieve further alignment of Section 402 and 906 with Section 340 as the references to Section 340 in Section 402 and 906 are adequate. |
| 35. | SCM | AOB is of the view that the current proposed conforming amendments in Sections 402 and 906 are sufficiently aligned. |
| 36. | ACCA | <p>We do not believe it is necessary to achieve further alignment of Sections 420 and 906 with the proposed Section 340. It appears that the cross-referencing to Section 340 within Sections 420 and 906 is sufficient and, subject to the comments we have made in response to question 3 above, we would not support any changes which would lengthen the Code still further.</p> <p>The IESBA restructure project has determined that the second and third parts of the Code (currently B and C in the extant Code) should be swapped around, in order to place all the PAPP requirements together. While consistency and clarity are fundamental requirements of the Code, we believe there is no need nor justification for duplicating in Sections 420 and 906</p> |

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| | | provisions that will already exist in part 3 of the Code. Furthermore, the impression should not be given that everything an auditor, for example, needs to know in relation to inducements is contained within Section 420. An auditor would still need to be competent to understand and implement the conceptual framework. |
| 37. | CPA Canada | We do not believe that further alignment of Sections 420 and 906 with proposed Section 340 is needed. |
| 38. | ICAGH | No. We acknowledge that this need s to be done when any of the respective sections is amended in the future. |
| 39. | ICAEW | No. For the reasons given above. |
| 40. | ICAN | Yes, we believe that the IESBA should pursue future project in order to align sections 420 and 906 with proposed section 340. Our basis is that the essence of this Code is to prevent inducement that influences improper behavior and this has to do with the professional accountants. Whether the professional accountant is in public practice as a member of an audit team or an assurance team, the same purpose of prohibiting improper behavior from inducement remains the objective. |
| 41. | ICAS | We do not believe that this should be a priority for IESBA at this point in time. The substance of the proposals applies via the need to also comply with the requirements in Section 340. The other alternative would be to reflect the content of Section 340 in Sections 402 and 906 as this would not amount to a change in substance. |
| 42. | JICPA | We do not believe that the IESBA should consider a project in the future to achieve further alignment of Sections 420 and 906 with proposed Section 340. |
| 43. | SAICA | <p>In our view the current reputational damage that the profession is facing, worldwide and in South Africa where partners were perceived to be closely aligned to unethical activity of business people, of receiving perceived favours and preferential treatment, this has tarnished the profession. The upfront considerations when applying rules around independence and a relook at these is strongly encouraged.</p> <p>SAIC would like to see further alignment of Sections 402 and 906 with section 340 as achieving compliance with the independence standard is of paramount important for professional accountants. Independence in appearance and perception affects the many faceted relationship of the firm and the professional accountant when providing professional services. In view</p> |

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| | | of the submission that the concept of independence and compliance with the requirements will be made into an ethical standard it is advisable that more rules and application material is embodied in that document. |
| 44. | VRC | |
| 45. | GOA | We did not identify the need for IESBA to consider a future project to achieve further alignment of sections 420 and 906 with proposed section 340. |
| 46. | WPK | In our view no comprehensive alignment project is needed. The current requirements are adequately clear and sufficient |