

Mr. Ken Siong
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

8 December 2017

Dear Mr. Siong:

Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements

We are pleased to comment on the Exposure Draft *Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements* (the "ED"). We fully support the Board's efforts to promote ethical behavior by professional accountants, whether in business or public practice.

With the proposed changes, we believe the Board places an appropriate level of focus on the need to consider and apply the conceptual framework with regard to offering and accepting inducements, and therefore achieves its objective of assisting professional accountants in business, as well as professional accountants in public practice, in understanding how to deal with offering and accepting inducements. Since the threats to fundamental principles are the same for professional accountants in business and in public practice, we agree that the provisions should be aligned. While we believe that the proposed changes will be of significant benefit, we see a need for additional clarification around the meaning of inducements and when an assessment of "intent" is required.

Four specific questions were identified on which the Board welcomed respondents' views and we have organized our response accordingly. Our comments are set out below.

Request for Specific Comments

Proposed Section 250

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

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.

Assessing intent in all situations

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:

“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.”

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.

Clarification of items that are not considered as inducements

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.

Clarification of safeguards

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.

Edit to paragraphs R250.12 and R340.12

“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.

Proposed Section 340

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

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.

Proposed Conforming Amendments to Independence Provisions

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

Yes. We support the restructuring changes and proposed conforming amendments in proposed Sections 420 and 906.

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

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.

We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Bob Franchini (+39-02-7221 22014) or John Neary (+49 89 14331 18922)

Yours sincerely,

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