



**The Institute of
Chartered Accountants
of Pakistan**

**CA
PAKISTAN**

HEAD OFFICE

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(Submitted electronically)

Technical Director
International Ethics Standards Board for Accountants
529, Fifth Avenue, 6th Floor
New York, USA

Comments on Exposure Draft, Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements

The Institute of Chartered Accountants of Pakistan (ICAP) is pleased to comment on the Exposure Draft, Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements (the ED) published by International Ethics Standards Board for Accountants (the IESBA) in September 2017.

Our responses detailed by the questions contained in the ED, are presented in the 'Appendix' to this letter.

We hope our comments are helpful to the IESBA's deliberation on the ED.

Should you require further clarification on our comments, please contact the undersigned at sohail.malik@icap.org.pk

Yours truly

Sohail Malik
Director Technical Services



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 it is articulated in the proposals?

ICAP Comment:

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.

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.

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?

ICAP Comment:

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).

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.

Proposed Conforming Amendments to Independence Provisions

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

ICAP Comment:

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.

Sections 420 and 906 are titled 'Gifts and Hospitality', which are examples of Inducement. Section 340 *Inducement, Including Gifts and Hospitality* provides various examples of Inducements (Gifts, Hospitality, Political or Charitable donations, Appeals to friendship and loyalty etc.) that can create threat to compliance with the fundamental principles. We believe that the 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.

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.

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.

ICAP Comment:

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.



CONTINUED

GENERAL COMMENTS

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- **Small and Medium Practices (SMPs)** - The IESBA invites comments regarding any aspect of the proposals from SMPs.

ICAP Comments - Not applicable

- **Regulators and Audit Oversight Bodies** - The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.

ICAP Comments - We believe that proposed Section 250 and 340 and proposed conforming amendments to Independence provisions will be beneficial to our members in enhancing the understanding of the conceptual framework relating to inducements.

- **Developing Nations** - Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

ICAP Comments - ICAP has already adopted the IESBA Code of Ethics with some changes. Therefore, we do not foresee any significant difficulties in applying the proposed changes in our environment.

- **Translations** - Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

ICAP Comments - Not applicable, as Code of Ethics is published in English.