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Ken Siong
Technical Director
International Ethics Standards Board for
Accountants (IESBA)
529 Fifth Avenue, 6th Floor
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Our ref SRA/288

8 December 2017

Dear Mr Siong

Exposure Draft: Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements

We appreciate the opportunity to comment on the above Exposure Draft issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG network.

Our overarching comments are set out below. The appendix to this letter provides our responses to the specific questions posed in the Exposure Draft.

Overall, we are supportive of the project and agree with the Board's objective to strengthen the provisions of the Code of Ethics related to the offering and accepting of inducements. We have provided suggestions within the appendix for modifications or clarifications that could be made to the standard in the following three key areas:

1. 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, the elevation of this concept in the proposed guidance may be difficult to operationalize as it requires an individual to objectively assess the intent of another. Additional context and guidance would be helpful as to how a professional accountant (PA) or a reasonable and informed third party (RITP) can objectively assess the intent of another.
2. Clarify that paragraph R250.12 regarding family members is a knowledge standard applicable only when a PA becomes aware of an inducement being offered, and the intent is not to impose a monitoring duty on the part of the PA.
3. Provide context and additional guidance on the meaning of "improperly influence." It would be helpful to clarify the intended scope and provide examples of target behaviors.



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Please contact Sheri Anderson on +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix: Responses to Specific Questions

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?

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:

- 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.

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.

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."

- 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:

“When a professional accountant becomes aware of an inducement being offered:

- (a) By an immediate or close family member of the accountant to a counterparty with whom the accountant has a professional relationship;
or
- (b) To an immediate and close family member of the accountant by a counterparty with whom the accountant has a professional relationship,

the professional accountant shall remain alert to potential threats to the accountant’s compliance with the fundamental principles arising from such inducement being offered.”

- 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.”

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?

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.

Proposed Conforming Amendments to Independence Provisions

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

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.

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.

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.