



Technical Director  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York 10017

December 14, 2017

**Re: IESBA Exposure Draft – Proposed revisions to the Code pertaining to the Offering and Accepting of Inducements**

Dear Mr Siong

**Introduction**

We<sup>1</sup> appreciate and thank you for the opportunity to comment on the IESBA’s Exposure Draft (ED) “Proposed revisions to the Code pertaining to the Offering and Accepting of Inducements”.

**Principal comments**

We support the Board’s efforts to address the topic of inducements, gifts and hospitality, which businesses, firms and individual professional accountants encounter during the course of their professional activities. As such, the development of appropriate and relevant requirements and related guidance within the Code will be useful. However, we have concerns that certain aspects of the proposals are not proportionate to the ethical issue the Board is seeking to address when the nature and frequency of an “object, situation or action” (referred to below as an “act”) are clearly occasional, sensible and reasonable in the circumstances. We believe that to subject all “acts” to the same detailed evaluation and, indirectly, documentation standards that are suggested in the ED would result in compliance considerations that are disproportionate and unnecessary in many situations.

---

<sup>1</sup> This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to “PwC”, “we” and “our” refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

---

*PricewaterhouseCoopers International Limited*  
1 Embankment Place  
London WC2N 6RH  
T: +44 (0)20 7583 5000 / F: +44 (0)20 7822 4652



## Detailed comments

### *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?*

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.

However we have a number of concerns with the proposals:

- 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.

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:



- 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.

We support the principle inherent in R250.12 relating to acts offered to immediate and close family, subject to the same comments as above.

*Proposed Section 340*

*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?*

Our comments on Section 250 are equally pertinent.

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.

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.

*Proposed Conforming Amendments to Independence Provisions*

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

No.

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.

Accordingly we recommend that no changes are made to Section 420 and 906.

*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.*

No, please see above.

*The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.*

We believe that the practical considerations noted above would be particularly onerous for small practitioners, especially sole practitioners. Such individuals often have close personal relationships with their clients, many of whom will not be assurance clients, and to have to go through the proposed considerations, including documentation, is both impractical and unnecessary.

**Contact**

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact Laurie Endsley (laurie.endsley@pwc.com) or me, at [jan.e.mccahey@pwc.com](mailto:jan.e.mccahey@pwc.com).



Yours sincerely

A handwritten signature in black ink that reads "Jan McCahey". The signature is written in a cursive style with a large, sweeping initial "J".

Jan McCahey  
Global Regulatory Leader