

PIOB Monitoring of Comment Letters submitted by MG/IFIAR/EAIG Members					
to the ED "Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements" (published in September 2017)					
As of June 2018					
#	Respondent	Group	Issue	MAIN Issues/Recommendations Description	SSB's Disposition of Comment
1	UK FRC	IFIAR Member	Clarifications on Requirements	The proposed requirement in paragraph R 250.8 should be clarified as follows: "Professional accountant shall not accept, or encourage others to accept, any inducement that the accountant has reason to believe is made, or that a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the <i>behaviour of the professional accountant or other recipient</i> ".	Final paragraph 250.8 reads: "A professional accountant shall not accept, or encourage others to accept, any inducement that the accountant concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence <b>the behavior of the recipient or of another individual</b> ".
2	UK FRC	IFIAR Member	Intent to Improperly Influence	It would be helpful if some guidance was added to help clarify what is "intent to improperly influence" behaviour. ... 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.	Par. 250.9 A1 has been added and reads: "An inducement is considered as improperly influencing an individual's behavior if it causes the individual to <b>act in an unethical manner</b> . Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The <b>fundamental principles are an appropriate frame of reference</b> for a professional accountant in considering what constitutes unethical behavior on the part of the accountant and, if necessary by analogy, other individuals."
3	UK FRC	IFIAR Member	Requirements	It would be helpful to include a specific requirement as follows before paragraph 250.10 A1: "A professional accountant <i>shall not offer or accept</i> , 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".	Final paragraph 250.7 reads: "A professional accountant <b>shall not offer</b> , or encourage others to offer, any inducement that is made, or which the accountant considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual". Final paragraph 250.8. reads: "A professional accountant <b>shall not accept</b> , or encourage others to accept, any inducement...". Text as par. 250.7.
4	UK FRC	IFIAR Member	Familiarity Threats	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, 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 (par. R420.4).	Par. 420.3 A1 has been added and reads: "Where a <b>firm, network firm or audit team member is offering or accepting</b> an inducement to or from an audit client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence".
5	IRBA	IFIAR Member	Differentiation between Inducements	We are of the view that the proposed amendments will confuse registered auditors by trying to differentiate between acceptable inducements and improper ones rather than between an inducement and a non-inducement. The explanatory memo notes that there were reservations expressed about using the term inducements because of its negative connotations. We share those reservations because in the context of professional services the term generally refers to an undesirable practice but the exposure draft uses the term to collectively refer to both acceptable and improper practices.	The approach followed in the Inducements provisions is to differentiate between Inducements which are prohibited by laws and regulations (which the professional accountant has to comply with) and Inducements which are not prohibited by laws and regulations. For the latter, the PA needs to assess the intent to improperly influence behaviour. When there is such intent, the PA shall not accept or shall not offer the Inducements.
6	IRBA	IFIAR Member	Inducements Description	Par. 250.4 A1 - The current description of inducements incorporates different concepts in a single description. This is confusing for the following reasons: 1. "as a means to influence another individual's behaviour" – There is an assumption that every form of inducement, 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. 2. "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.	Par. 250.11 A2 reads: "If such an inducement is <b>trivial and inconsequential</b> , any threats created will be at an acceptable level". Par. 420.3 reads: " <b>A firm, network firm or an audit team member</b> shall not accept gifts and hospitality from an audit client, <b>unless the value is trivial and inconsequential</b> ".
7	IRBA	IFIAR Member	Examples of Inducements	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. The following are suggestions to add to the examples of inducements: Patronage; Frequent board appointments; and Access to information.	The examples of Inducements (par. 250.4 A1) have been slightly edited but the specific examples suggested have not been embedded in the text.



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8	IRBA	IFIAR Member	Intent to Improperly Influence	R250.7 and R250.8: The distinction between an inducement with the intent to improperly influence and with intent to properly influence is unclear. This is mainly because the proposed amendments are silent on inducements with intent to properly influence the recipient.	Par. 250.9 A1 has been added and reads: "An inducement is considered as improperly influencing an individual's behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a professional accountant in considering what constitutes unethical behavior on the part of the accountant and, if necessary by analogy, other individuals."
9	IRBA	IFIAR Member	Reasonable and Informed Third Party Test	R250.7 and R250.8: 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... 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 RITP has been retained in the provisions.
10	IRBA	IFIAR Member	Focus on Individuals versus Groups	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).	Par. 250.9 A1 reads: "... Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient". Sections on Gifts and Hospitality (420 for Audits and Reviews, 906 for Other Assurance Engagements) state: "Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence". Par. 420.3 reads: "A firm, network firm or an audit team member shall not accept gifts and hospitality from an audit client, unless the value is trivial and inconsequential".
11	IRBA	IFIAR Member	Safeguards for SMPs	250.11 A3: 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. ... Additional safeguards may include making reasonable effort to return the inducement to the provider thereof.	Par. 250.11 A6 includes an updated list of safeguards, among which returning the inducements.
12	IRBA	IFIAR Member	Immediate and Close Family Members focus	R250.12 and R250.13: 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.	The section retains the focus on close family members.
13	IRBA	IFIAR Member	Threats to fundamental principles	Declined Inducements: 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.	Par. 250.9 A1 has been added and reads: "An inducement is considered as improperly influencing an individual's behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a professional accountant in considering what constitutes unethical behavior on the part of the accountant and, if necessary by analogy, other individuals."
14	IRBA	IFIAR Member	Trivial and inconsequential definition	"Trivial and inconsequential" has not been defined, thus creates a level of subjectivity.	"Trivial and inconsequential" has not been defined in the provisions.
15	Securities Commission Malaysia (AOB)	IFIAR Member	Closeness of relationship definition	Paragraphs 250.13 A1 and 340.13 A1 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.	The nature of "closeness" has not been described in the provisions.