

Inducements— Issues and Task Force Proposals

How the Project Serves the Public Interest

The Inducements project aims to strengthen the provisions in Part 2¹ of the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the “restructured Code”) to assist professional accountants in business (PAIBs) in better dealing with the offering and accepting of inducements while complying with the fundamental principles, in particular the principles of integrity, objectivity and professional behavior.

The proposed enhancements to Part 2 are also applicable to professional accountants in public practice (PAPPs). This is because it is likely that circumstances PAPPs encounter involving inducements that might create threats to compliance with the fundamental principles would be similar to those encountered by PAIBs. Accordingly, consequential and conforming amendments are reflected in Part 3,² Part 4A³ and Part 4B⁴ of the Code.

This project was formerly referred to as Phase 2 of the [Review of Part C of the Code Project](#) (Part C) project.

Introduction

1. At the March 2018 meeting, the Board deliberated the Task Force’s analysis of the issues raised by respondents on the Exposure Draft, [Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements](#) (ED) and its revisions to the proposed text of the inducements provisions (Sections 250, 340, 420 and 906).
2. The Board agreed to hold a teleconference to discuss the Task Force’s final revisions to the proposed text with a view to approving it as a final pronouncement.

Recap of March 2018 IESBA Discussions⁵

3. The Board was advised that the CAG Representatives did not raise any substantive issues regarding the Task Force’s proposals during the March 2018 CAG meeting.
4. With regard to the proposed Section 250, amongst other matters, the Board reached the following tentative conclusions:
 - The Board agreed that the proposed definition of the term “inducement” should revert to the ED version as the Task Force’s revision made the term less neutral. The Board also agreed to the revised list of examples of inducements.
 - Regarding the Task Force’s proposed explanation of what an inducement that improperly

¹ Part 2– Professional Accountants in Business, Section 250, *Inducements, Including Gifts and Hospitality*

² Part 3 – Professional Accountants in Public Practice, Section 340, *Inducements, Including Gifts and Hospitality*

³ Part 4A – Independence for Audit and Review Engagements, Section 420, *Gifts and Hospitality*

⁴ Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements, Section 906, *Gifts and Hospitality*

⁵ In addition to Agenda Item 5-B, the Board also discussed Agenda Item 5-B.1 circulated during the Board meeting that contains turnaround revisions of Sections 250 and 420.

influences behavior is, the Board agreed that the text should refer to the professional accountant's (PA's) judgement of what is unethical behavior. The Board also agreed that when judging unethical behavior, the PA's frame of reference should be the fundamental principles. The Board broadly supported the Task Force's proposed application material in this regard.

- A few IESBA members were unclear about the relationship between the recipient of an inducement and "another individual" in the Task Force's proposed revisions to the prohibitions relating to the offering and accepting of inducements with intent to improperly influence behavior. The Board broadly supported the Task Force's proposed additional application material in this regard and asked that this matter be addressed in the Basis for Conclusions.
 - The Board agreed to the proposed new application material to remind PAs that threats to compliance with the fundamental principles might still be created even if they have complied with requirements in paragraphs R250.7 and R250.8.
 - The Board agreed that the Task Force's proposed requirement to apply the conceptual framework when dealing with inducements with no intent to improperly influence behavior was unnecessary and duplicative of the overarching requirement to apply the conceptual framework in the Code.
 - With respect to inducements with no intent to improperly influence behavior, the Board agreed that if such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.
 - With regard to the section relating to immediate or close family members, the Board agreed not to extend the scope of the standard further by dealing with other related parties such as business associates. The Board also agreed that the requirement for a PA to remain alert to potential threats be retained.
5. The Board agreed that Section 340 should reference prospective clients where appropriate. Except for consequential amendments resulting from changes to Section 250 agreed at the meeting, the Board did not raise any substantive concerns regarding the Task Force's revisions to proposed Section 340.
6. No substantive issues were raised in relation to the proposed conforming amendments to Sections 420 and 906.

Revisions to March 2018 Proposed Text

7. In early April, the Task Force circulated to the Board a revised draft of Sections 250 and 420 (Agenda Item 5-B.2), marked up from the March 2018 Board discussions, with the following key changes:
- New application material (paragraph 250.13 A2) to remind PAs that threats to compliance with the fundamental principles might still be created when there is actual or perceived intent to improperly influence behavior even if the immediate or close family member has followed the advice of the PA to not offer or accept an inducement.
 - Made a number of editorial amendments, including to conform to the restructured Code's drafting conventions.
8. Amongst other matters, the following comments were raised by Board members:

- One Board member queried the references to the fundamental principles in both paragraphs 250.9 A1 and 250.9 A2 and suggested that the last sentence in paragraph 250.9 A1 be replaced as the terms “frame of reference” and “if necessary by analogy” may not be consistent with the Code’s language. In response, the Task Force notes that these terms, as agreed by the Board at the March 2018 meeting after lengthy discussions, convey clearly the Board’s thinking that a PA should rely on their frame of reference which is the fundamental principles when considering what constitutes unethical behavior of an individual. It is also noted that reference to the fundamental principles in paragraph 250.9 A1 relates to what constitutes unethical behavior whereas the reference to the principle of integrity in paragraph 250.9 A2 explains why offering or accepting an inducement, or encouraging others to offer or accept, by a PA should be prohibited.
 - The same Board member also questioned whether the ordering of paragraphs 250.9 A1 and 250.9A2 should be reversed. The Task Force notes that paragraph 250.9 A1 is the first time it is explained what is meant by improper influence whereas paragraph 250.9 A2 then explains why that is a breach of the fundamental principle of integrity. The Task Force, therefore, believes that the order is the logical one.
 - It was suggested that in addition to a breach of the fundamental principle of integrity, the offering, or accepting an inducement, or encouraging others to offer or accept, will also cause a breach of the principle of professional behavior. As explained during the March 2018 Board meeting, the Task Force is of the view that whilst such action by a PA may cause a breach of the principle of professional behavior, it may not always be the case. The Task Force also notes that this application material was only added in response to questions raised in comments on the ED as to how whether “improper influence” was introducing a new concept unrelated to the fundamental principles. As such, it is more straightforward to be clear that it is a breach of one of the fundamental principles.
 - It was queried about whether the subheading “Consideration of Further Actions” above paragraph 250.10 A1 is necessary. In response, the Task Force notes that the use of the subheading in this instance is useful as it signifies that the following two paragraphs relate to a different but related matter.
 - There was also a concern about whether the scope of Section 250 is too broad. In this regard, the Task Force notes that paragraph 250.3 clearly limits the scope to those situations that involve the PA undertaking professional activities. Similarly, the scope in Section 340 is limited to the provision of professional services.
9. In response to the further feedback from Board members, the Task Force proposed the following further changes:
- Clarifying the lead-in to paragraph 250.14 A1 to make clear that threats might be created where a PA becomes aware of an inducement offered in the circumstances addressed in paragraph R250.12 when either the immediate or close family member did not accept the PA’s advice pursuant to paragraph R250.13, or the accountant does not have reason to believe an actual or perceived intent to improperly influence the behavior of the accountant or of the counterparty exists.
 - Editorial refinements, including to conform to the restructured Code’s drafting conventions.

10. The Task Force has also conformed Sections 340 and 906 to the changes made to Sections 250 and 420 respectively.

Matter for IESBA Consideration

1. Do IESBA members agree with the Task Force's revisions to the proposed text in **Agenda Item 1-B**?

Due Process Matters

Significant Matters Raised by Respondents

11. It is the Task Force's view that all significant matters raised by the respondents to the ED have been identified and deliberated by the Task Force. The Task Force's analysis of the significant matters identified and its proposals have also been presented in public agenda papers for the Board's discussions. In the Task Force's view, there are no significant matters raised by the respondents that have not been brought to the Board's attention.

Need for Further Consultation

12. The Task Force believes that all significant matters have been deliberated and resolved by the Board. During its March 2018 meeting, the IESBA CAG did not raise any concerns about the Task Force's analysis of the significant matters raised by respondents to the ED or the Task Force's related proposals.
13. On the basis of the above, the Task Force does not believe there is a need for further consultation with stakeholders.

Consideration of the Need for Re-Exposure

14. The key revisions to the ED are as follows:
 - New application material that explains what an inducement that improperly influences behavior is and how offering or accepting such inducements is a breach of the fundamental principle of integrity.
 - Cultural practice has been added as a relevant factor when considering the intent behind an inducement.
 - New application material that reminds PAs that threats to compliance with the fundamental principles might nonetheless be created even when the requirements in paragraphs R250.7 and R250.8 have been met or when an immediate or close family member has accepted the PA's advice pursuant to paragraph R250.13.
 - Revisions that clarify that PAs are only required to take further actions when they become aware of an inducement being offered to or by an immediate or close family member.
 - Clarifying that the scope of Section 340 includes prospective clients.
 - New application material in Sections 420 and 906 that clarifies the relationship between each of these two sections with Section 340.

15. In light of the above, the Task Force considers the changes reflected in the final proposed text post-exposure to be in response to feedback from respondents to the ED and do not fundamentally or substantively change to the proposals in the ED. Accordingly, the Task Force is of the view that re-exposure is not needed.

Matter for IESBA Consideration

2. Do IESBA members agree that the changes to the ED do not warrant re-exposure?