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Dear Sir or Madam,

Response to the International Ethics Standards Board for Accountants (IESBA) Exposure Draft: *Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements*

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to small and medium-sized entities (“SMEs”) both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs. EFAA represents 17 national accounting, auditing and tax advisor organisations with more than 370,000 individual members.

EFAA is pleased to provide its comments to the Exposure Draft (ED), which have been prepared with input from our Assurance Expert Group. Below you will find ‘General Observations’ and our responses to the specific questions posed in the ED. We question whether there is indeed a need to revise the *Code of Ethics for Professional Accountants* (the Code) in relation to inducements and fears that the proposals may have little impact while adding undue complexity and prescription.

General Observations

Integrity

The requirements proposed are the logical consequence of applying the conceptual framework to comply with the fundamental principle of integrity. When describing an inducement, we suggest the Code should stress that, even if professional behaviour is not breached when offering an inducement that is not contrary to law or regulation, the principle of integrity may be breached due to the intent to influence.

Principles-Based Code

The proposals are more rules-based than the current threats and safeguards (principles-based) approach prevalent in other parts of the Code. We believe that while the concept of ‘improper intent’ is generally well understood on an intuitive level, it is less suitable to make such a distinction in a global Code. Cultural differences play a role and intentions by their very nature can only be known to the perpetrator.

We are concerned that the level of detail in the revised inducement provisions, together with zealous expectations on the part of regulators, could lead to overly onerous documentation – in particular for SMPs. We believe a simpler approach should be adopted, in place of extending the Code as has been proposed.

New Concepts

The ED could be interpreted as introducing a new concept, that of an intent test that sits alongside the existing concept of the conceptual framework (threats and safeguards). As explained below we question the merits of this test and believe it will add complexity.

When it comes to the reasonable and informed third party (RITP) test, the ED seems to introduce a new concept that of a distinction between objectivity in mind and objectivity in appearance (see paragraphs 22 and 23 of the Explanatory Memorandum). We question whether this approach towards objectivity can or should be applied to PAIBs since objectivity of appearance is not an issue for them in the way it is for PAPPs.

Implementation

So as to assist practitioners with efficiently implementing the Code and managing the number of changes, we suggest the Board consider using the same effective date as the rest of the restructured Code.

EFAA Research

The EFAA survey [“Accounting and Ethics: Pressure Experienced by the Professional Accountant”](#) revealed that accountants, auditors and tax advisors often experience significant pressure to, act unethically. Given inducements and pressure are interconnected this research may be relevant to this IESBA project.

Specific Questions

Q1. 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 note that Section R250.7 addresses the situations where inducements are made with the intention to improperly influence behavior. We question the merits of this intent test and believe it will add undue complexity to the Code. The subjective nature of perceptions combined with uncertainty as to the appropriate degree of accommodation for differing cultural and business norms is likely to prove problematic. In the determination of the acceptability of an inducement it might be better to focus on whether an inducement will likely influence rather than the intent.

While we support the need to obtain an understanding of relevant laws and regulations and complying with them (R.250.5) we wonder whether this is already adequately addressed by the fundamental principle of professional behaviour.

Q2. 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 with the alignment objective since we believe the Code should not draw a distinction between PAIBs and PAPPs. However, as explained above we question the merits of the intent test and whether one can or should apply the concept of objectivity in appearance for PAIBs.

Examples of actions that might be safeguards to address the threats created by offering or accepting an inducement (340.11 A3) should include practical examples from an SMP environment.

Q3. Do respondents support the restructuring changes and proposed conforming amendments in

proposed Sections 420 and 906?

We disagree.

As explained above we question the merits of the intent test and therefore do not support the introduction of this test by means of reference in Sections R420.4 and R906.4. The current independence requirements are sufficient. Furthermore, we do not believe one should distinguish gifts and hospitality from other types of ‘contribution’. Rather all kinds of contributions are (potential) threats to the fundamental principles and should be evaluated according to the threats and safeguards approach of the conceptual framework.

Q4. 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.

We don’t believe such a project is necessary. The current requirements are sufficient and clear. In our [response](#) to the IESBA Strategy Survey we recommended deferring any new changes to the Code until after the completion of the restructuring project and encouraged the Board to prioritize conducting a post implementation review before undertaking any new projects.

I trust that the above is clear. However, should you have any questions, please contact me any time.

Yours faithfully,



Bodo Richardt

President