



Our Ref.: C/EC

Sent electronically through the IESBA Website (www.ethicsboard.org)

4 February 2015

Ken Siong
Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017
The United States of America

Dear Sir,

IESBA Consultation Paper on Improving the Structure of the Code of Ethics for Professional Accountants

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on this Consultation Paper. Our responses to the questions raised in your Invitation to Comment are set out in the Appendix for your consideration.

We have concerns on the example in paragraph 33 of the Consultation Paper on who may be the "responsible individual within a firm responsible for taking appropriate action in accordance with the requirements of the Code". We consider every member of the firms has specific contributions to the firm's compliance to the Code. The existing drafting may create an impression that the personnel quoted in the example are required to bear the responsibility for breaches of the Code that may be committed by some other members of the firm, which we consider to be inappropriate. We are not sure whether the current drafting is consistent with what is intended to achieve. We recommend the IESBA to reconsider the proposal with caution to ensure fair and equitable results are achieved.

In relation to the timeline of the project we noted that there have been strong demands from practitioners as well as regulators for prompt completion of this project. The existing proposed timeline (i.e. having the restructured Code become effective by early 2018 at the earliest) is not helpful for practitioners and may undermine the perceived effectiveness in standard setting by IESBA. We urge the IESBA to expedite the completion of this project, even needing to delay the completion of certain other projects.

If you have any questions regarding the matters raised in our submission, please contact me.

Yours faithfully,

Chris Joy
Executive Director

CJ/AW
Encl.

Hong Kong Institute of CPAs

Comment on IFAC's International Ethics Standards Board for Accountants (IESBA) Consultation Paper on Improving the Structure of the Code of Ethics for Professional Accountants

Question 1

Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples, would be likely to achieve IESBA's objective of making the Code more understandable?

If not, why not and what other approaches might be taken?

Question 2

Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples would be likely to make the Code more capable of being adopted into laws and regulations, effectively implemented and consistently applied? If not, why not and what other approaches might be taken?

We believe the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples, would make the Code more understandable, and hence facilitate effective implementation and consistent application. In particular, we consider the proposed restructuring the Code into three separate components of (i) purposes, (ii) requirements, and (iii) application and other explanatory material, which is a similar structure as the International Standards on Auditing, would make the content more comprehensible.

Moreover, we welcome the IESBA's reiteration in its Consultation Paper on the importance of the conceptual framework approach which addresses threats to compliance with the fundamental principles rather than simply complying with rules. We note that it is not possible to define in the Code every situation that creates threats to independence and to specify the appropriate action. We continue to believe the threats-and-safeguard approach, with specific prohibitions for appropriate circumstances, provide valuable guidance and guide appropriate behavior by practitioners.

Please refer to our responses to the other questions for specific comments on different aspects of the Consultation Paper.

Question 3

Do you have any comments on the suggestions as to the numbering and ordering of the content of the Code (including reversing the order of extant Part B and Part C), as set out in paragraph 20 of the Consultation Paper?

We consider the proposed numbering and ordering of the Code facilitates easier navigation around the Code. We also consider grouping the material related to professional accountants in public practice with those related to independence at the end help the practitioners understand their responsibilities and requirements more completely and holistically.

We consider it is important to ensure the new numbering system is flexible enough to facilitate insertion of additional materials on emerging issues. We recommend the IESBA to fine-tune its proposed numbering system as the numberings in Part III and the 440 series (i.e. the section on independence requirements to provide non-assurance service for audit and review clients) have already been substantially utilized.

Question 4

Do you believe that issuing the provisions in the Code as separate standards or rebranding the Code, for example as International Standards on Ethics, would achieve benefits such as improving the visibility or enforceability of the Code?

We consider it is important to ensure practitioners fully aware of the authority of the Code as requirements but not merely non-mandatory guidance or recommended practice. Accordingly, we support the IESBA's proposal to rebrand the Code as International Standards on Ethics as it helps to enhance perceived importance on the Code by users and also the general public.

We consider issuing the provisions in the Code as separate modules would facilitate ongoing maintenance of the standard and would improve visibility and enforceability of requirements. When doing so the IESBA should ensure the linkages between the individual modules and the general principles/conceptual framework of the Code are maintained.

Question 5

Do you believe that the suggestions as to use of language, as reflected in the Illustrative Examples, are helpful? If not, why not?

We consider the suggestions on the use of language, as reflected in the Illustrative Examples, enhance the readability and clarity of the Code. In particular, the use of word "shall" in place of "should" makes the requirements more visible where the use of simpler and shorter sentences enhance readability and the ease for translation.

For the terms that have specific meanings which a user may not expect unless they have a comprehensive knowledge of the Code (for example: "audit" includes "review engagements") as highlighted in paragraph 24 of the Consultation Paper, we noted that the IESBA for addressing the issue is considering either (i) to include a link to terms that are described in greater detail within the Code, instead of in the definitions section; or (ii) to create a new section only for review engagements that would



duplicate the independence section for audit. We consider the second approach will make the Code significantly longer for little benefit and hence reduce readability. We consider using the term "audit and review engagement" for requirements that are both applicable to those two types of engagement not cumbersome and enhance clarity of requirements.

Question 6

Do you consider it is necessary to clarify responsibility in the Code? If so, do you consider that the illustrative approach to responsibility is an appropriate means to enhance the usability and enforceability of the Code? If not, what other approach would you recommend?

Question 7:

Do you find the examples of responsible individuals illustrated in paragraph 33 useful?

We consider it is reasonable to require firms to have systems in place to ensure clear understanding on the responsibilities by individual members of the firm. Such requirement enhances enforceability of the Code.

We however have concerns on the example in paragraph 33 of the Consultation Paper on who may be the "responsible individual within a firm responsible for taking appropriate action in accordance with the requirements of the Code". The paragraph highlighted that such responsible individuals may include: the engagement partner; senior individuals responsible for ethics or independence matters for the firm; any other individual within the firm identified as a responsible individual in relation to a particular matter. We consider every member of the firms has his specific contributions to the firm's compliance to the Code. The drafting of the paragraph creates an impression that the personnel quoted in the example are required to bear the responsibility for breaches of the Code that may be committed by some other members of the firm, which we consider to be inappropriate. Although the quoted personnel may be involved in the design and/or operation of the compliance infrastructure of the firm, they should not be held accountable for the breaches as long as they have put in reasonable initiatives and efforts for discharging their duties. We are not sure whether the current drafting of the paragraph is consistent with what is intended to achieve.

We appreciate the IESBA's effort to clarify responsibility to compliance of the Code so as to enhance usability and enforceability of the Code, we however recommend the IESBA to develop the proposal with caution to ensure fair and equitable results are achieved.

Question 8:

Do you have any comments on the suggestions for an electronic version of the Code, including which aspects might be particularly helpful in practice?

We welcome the release of electronic version of the Code by IESBA on 2 December 2014 and would assume that electronic version will be refined based on the consultation conclusion of this project.

We consider the proposed filtering function, cross-linkages between relevant information and navigation improvements as highlighted in the Consultation Paper would be useful for practitioners. However, in case the electronic version will also be an official version of the Code the IESBA would need to ensure the proposed electronic functions (for example the filtering function) works effectively to ensure full relevant content are provided to the users or otherwise the failure may need to unintended breach of Code by practitioners.

Question 9

Do you have any comments on the indicative timeline described in Section VIII of this Paper?

We noted that the IESBA plans to expose a fully restructured Code after its meeting in October 2015, with the objective to finalize the restructured Code in early 2017 which could become effective at the earliest one year later (i.e. by early 2018).

We noted that there have been strong demands from practitioners as well as regulators for prompt completion of this project. The progress and result of this project will also affect how the IESBA draft its pronouncement and hence affect the progress for its other ongoing projects. We urge the IESBA to expedite the completion of this project, even needing to delay the completion of certain other projects.

Question 10

Do you have any other comments on the matters set out in the Consultation Paper?

We in the meantime do not have other comment on the matters set out in the Consultation Paper. We would be delighted to provide further inputs when the Exposure Draft is released.

~ End ~