



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

Our Ref.: C/EC

**Sent electronically through the IESBA Website ([www.ethicsboard.org](http://www.ethicsboard.org))**

15 April 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 Exposure Draft on Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles**

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 Exposure Draft.

We support the IESBA's initiative to strengthen Part C of the Code in order to better promote the ethical behavior of professional accountants in business (PAIBs) given the important role they play in the financial reporting supply chain. The proposed changes to Part C provide explicit and detailed guidance on applying the overarching principles in section 320 and section 370. The changes also clearly set out possible actions that PAIBs may consider when confronted with issues concerning misleading information or pressure to act in ways that could breach the fundamental principles.

Having said that, we have some reservations about the clarity of some examples in paragraph 320.3 of the Exposure Draft that address situations when PAIBs are required to exercise discretion in a manner that is not intended to mislead. In particular we believe they may give rise to some confusion over the need and ability to use professional judgement in the application of accounting standards. Our view are fully expressed in the Appendix and we suggest that further refinement or clarification of the proposed examples in paragraph 320.3 could be appropriate.

Our responses to the questions raised in your Invitation to Comment are set out in the Appendix for your consideration.

If you have any questions regarding the matters raised in our comment letter, please contact Eky Liu, our Associate Director of Standard Setting at [eky@hkicpa.org.hk](mailto:eky@hkicpa.org.hk).

Yours faithfully,

Chris Joy  
Executive Director

CJ/EL  
Encl.



## **Comments on IESBA Exposure Draft on Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles**

### **Proposed Revised Section 320**

#### **Question 1**

**Is the enhanced guidance on applying the "fair and honest" principle in Section 320 helpful?**

We consider the enhanced guidance on applying the "fair and honest" principle in Section 320 is helpful.

#### **Question 2**

**In particular, do respondents support the guidance in paragraph 320.3 addressing the issue of misuse of discretion in a manner that is intended to mislead? If not, please explain why. Are there any other considerations relating to this issue that should be addressed in Section 320?**

We find that some examples in paragraph 320.3 may contradict the general requirement in relation to the use of professional judgement in accounting or auditing standards.

In particular, we have a concern on the second example relating to "selecting a particular accounting method among two or more alternatives permitted under the applicable financial reporting framework". When accounting policy choices are permitted under the applicable financial reporting framework, in most cases, the selected accounting method does not violate the "fair and honest" principle so long as the method is appropriate in that circumstance.

We have a similar concern on the third and fourth examples relating to "determining the timing of transactions" and "determining the structuring of transactions" respectively. PAIBs are generally required to carefully determine and plan the transactions for business purpose or for tax planning. When the transaction is arranged legitimately under the applicable laws and regulations, in most cases, it does not violate the fair and honest principle. Instead, we think the issue would be whether the transaction is fairly and honestly accounted for and presented.

While we appreciate the IESBA's effort in providing more practical and explicit guidance in paragraph 320.3, the examples may be confusing to PAIBs on whether they can exercise discretion under those situations. Hence, we recommend the IESBA reconsidering the appropriateness of the proposed examples.

### **Question 3**

**Paragraph 320.4 provides guidance as to what PAIBs are expected to do ethically in order to prepare or present fairly and honestly information that does not have to comply with a relevant reporting framework. Is this guidance sufficient? If not, what further guidance could Section 320 usefully provide?**

We agree with the proposed guidance to emphasize the three important considerations (purpose, context and audience) for PAIBs to prepare or present information fairly and honestly.

### **Question 4**

**Do respondents agree that where a PAIB relies on the work of others, the PAIB should be required to take reasonable steps to be satisfied that such work enables the PAIB to comply with the overarching principle in paragraph 320.2?**

We agree that a PAIB should take reasonable steps to be satisfied that the work of others enables the PAIB to comply with the overarching principle in paragraph 320.2. However, it is suggested to explain what "reasonable steps" that a PAIB would be expected to take.

### **Question 5**

**Do respondents agree with the guidance proposed in paragraphs 320.6 and 320.7 regarding disassociation with misleading information? Are there other actions that could be specified?**

We agree with the guidance proposed in paragraphs 320.6 and 320.7 regarding disassociation with misleading information. Further to the possible actions proposed in paragraph 320.7, we suggest a PAIB may also consider consulting a professional expert, such as professional firm or consulting firm. However, PAIBs should be reminded to take into account the fundamental principle of confidentiality before taking the proposed actions to consult third parties.

### **Other comment**

We recommend that the title of this section be changed from "Presentation of Information" to "Preparation and Presentation of Information" in order to better reflect the scope of this section, given that many of the paragraphs mention "preparation and / or presentation of information".

## **Proposed Section 370**

### **Question 1**

**Do respondents agree with the overarching requirements in paragraphs 370.1 and 370.2?**

We agree with the overarching requirements in paragraphs 370.1 and 370.2.

## **Question 2**

**Are the illustrative examples of types of pressure that could result in a breach of the fundamental principles in paragraph 370.4 helpful?**

## **Question 3**

**Is it sufficiently clear that Section 370 addresses pressure that could result in a breach of fundamental principles, as opposed to the routine pressures that exist in the workplace? In particular, does paragraph 370.5 provide sufficient guidance to assist the PAIB in making that distinction? If not, what other considerations should the PAIB take into account?**

We consider the illustrative examples of types of pressure that could result in a breach of the fundamental principles in paragraph 370.4 and the contextual considerations in paragraph 370.5, in general, provide useful guidance to assist PAIBs in better distinguishing between pressures that could lead to a breach of the fundamental principles from routine pressures that exist in the workplace. However, it is noted that the example of "pressure from superiors to perform a task without sufficient skills or training or without sufficient time" is not uncommon for PAIBs in real life. It would be helpful to further elaborate on this example in order to differentiate such pressure from routine pressure at work.

In addition to the proposed considerations in paragraph 370.5, we suggest a PAIB may wish to consult a professional expert, under the condition of confidentiality, when facing with pressure that could result in a breach of fundamental principles.

## **Question 4**

**Do respondents find the guidance in paragraph 370.6 on responding to pressure that would result in a breach of the fundamental principles helpful? Are there other actions that should be considered?**

We consider the proposed actions in paragraph 370.6 provide useful guidance on responding to pressure that would result in a breach of the fundamental principles. We suggest that a PAIB may also consider referring the relevant requirements under the Code of Ethics to the individual who exerts such pressure. We believe this action could help the PAIB resolve the ethical issue and at the same time, promote the Code in the organisation.

## **Question 5**

**Are the references to other sections of Part C of the Code, in paragraph 370.9, helpful?**

We consider the references to other sections of Part C of the Code, in paragraph 370.9, helpful.

~ End ~