



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

Our Ref.: C/EC

20 April 2016

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,

**International Ethics Standard Board for Accountants Exposure Draft on Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1**

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Exposure Draft.

We support the IESBA's proposals for restructuring the Code of Ethics for Professional Accountants (the Code), which enhance the understandability and usability of the Code, thereby facilitating its adoption, effective implementation and consistent application.

We note that the restructured Code does not explicitly require the consideration of network firms when assessing independence in certain circumstances specified in the Code. We consider that this may create an impression that firms are not required to consider threats to independence that may be created by network firms in those circumstances. We are not sure whether this is consistent with what the IESBA intended to achieve. Our views are fully expressed in the Appendix and we recommend that further refinement or clarification of the restructured Code in this context could be appropriate.

Our responses to the questions raised in the Exposure Draft 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, Associate Director of the Standard Setting Department (eky@hkicpa.org.hk).

Yours faithfully,

A handwritten signature in black ink that reads 'Chris Joy'. The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Chris Joy  
Executive Director

CJ/EL  
Encl.



### Detailed comments on IESBA Exposure Draft on *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1*

#### Question 1

Do you agree with the proposals, or do you have any suggestions for further improvement to the material in the Exposure Draft, particularly with regard to:

- (a) Understandability, including the usefulness of the Guide to the Code?
- (b) The clarity of the relationship between requirements and application material?
- (c) The clarity of the principles basis of the Code supported by specific requirements?
- (d) The clarity of the responsibility of individual accountants and firms for compliance with requirements of the Code in particular circumstances?
- (e) The clarity of language?
- (f) The navigability of the Code, including:
  - (i) Numbering and layout of the sections;
  - (ii) Suggestions for future electronic enhancements; and
  - (iii) Suggestions for future tools?
- (g) The enforceability of the Code?

#### Question 2

**Do you believe the restructuring will enhance the adoption of the Code?**

We agree with the overall proposals in the Exposure Draft and consider that the proposed restructuring of the Code enhances the understandability and usability of the Code, thereby facilitating its adoption, effective implementation and consistent application. In particular, the Guide to the Code provides an overview of the Code which helps users understand the Code before they read and apply the Code.

In addition, we support the IESBA's proposed approach in reiterating the importance of the conceptual framework which addresses threats to compliance with the fundamental principles regardless of the nature of the particular circumstances, rather than focusing on complying with rules. We believe that a principle based approach supported by specific requirements provides valuable guidance for appropriate behavior by professional accountants. We also consider that the way the proposals distinguish requirements from application materials is appropriate.

In respect of the clarity of the responsibility of individual accountants and firms for compliance with requirements of the Code, we agree with the current proposal to retain the Code's reference to *International Standard on Quality Control 1* and *International Standards on Auditing*. We also note that the International Auditing and Assurance Standards Board (IAASB) is currently seeking stakeholders' views on enhancing audit quality, including the issue of responsibility and quality control. We recommend that the IESBA works with the IAASB in this area and considers any potential impact on the Code's responsibility paragraphs when the outcome of the IAASB's consultation is known.



### **Question 3**

**Do you believe that the restructuring has changed the meaning of the Code with respect of any particular provisions? If so, please explain why and suggest alternative wording.**

We consider that the restructuring of the Code, in general, has not changed the overall meaning of the Code.

Please refer to our responses to Question 5 for specific comments on distinguishing network firms and firms.

### **Question 4**

**Do you have any comments on the clarity and appropriateness of the term "audit" continuing to include "review" for the purposes of the independence standards?**

We agree with the IESBA's approach to continue including "review" in the term "audit" for the purposes of the independence standards. We consider that the definition of the term is clearly set out in the footnotes in the proposed independence standards and in the glossary.

### **Question 5**

**Do you have any comments on the clarity and appropriateness of the restructured material in the way that it distinguishes firms and network firms?**

We consider that the way the restructured material distinguishes network firms from firms increases the clarity of the roles of firms and network firms when assessing independence for audit and review engagements. Specifically, we agree that the term 'firm' is not used to include network firm and that 'network firm' is used only when relevant to considering interests or relationships which may create a threat to independence.

However, we note that the restructured Code does not explicitly require the consideration of network firms when applying the conceptual framework in the following circumstances:

- Accepting gifts or hospitality from an audit client (proposed section 420)
- Recent service with an audit client (proposed section 522)
- Employment with an audit client (proposed section 524)

We consider that the proposed drafting may create an impression that firms are not required to consider if threats to independence are created by network firms in the above circumstances. We are not sure whether this is consistent with what the IESBA is intended to achieve. We recommend that the IESBA reconsiders the appropriateness and clarity of the restructured Code in this context in order to ensure consistent application of the Code.



**Question 6**

**Is the proposed title for the restructured Code appropriate?**

Yes.

~ End ~