



**Ethics Committee**  
**Meeting Summary – September 2006**

The Ethics Committee (Committee) met on 12 September 2006.

Members of the Committee present were: Mark Fong (Chairman), Doug Oxley (Deputy Chairman), Barbara Chan, Paul Cheng, Chew Fook Aun, Eric Fok, Charles Grieve, Kenneth Lam, Quinn Law, Sheila Pattle, William Shafer and Kenny Tam.

Secretariat staff present were: Patricia McBride (Director, Standard Setting), Elaine Chan (Assistant Director, Standard Setting) and Steve Ong (Assistant Director, Standard Setting).

The Committee discussed the following agenda items:

1. Section 290 (Revised) “Independence – Assurance Engagements”: Revised Definition of a Network Firm
2. Section 250 “Marketing Professional Services”
3. Section 240 “Fees and Other Types of Remuneration”
4. Section 210 “Professional Appointment”

1. **Section 290 (Revised) “Independence – Assurance Engagements”: Revised Definition of a Network Firm**

The Committee approved to submit the proposed Section 290 (Revised) “Independence – Assurance Engagements”, which was adopted verbatim from Section 290 (Revised) issued by the International Ethics Standards Board for Accountants in July 2006 to revise the definition of a network firm, to Council for approval for issue as a final standard effective for assurance reports dated on or after 31 December 2008.

2. **Section 250 “Marketing Professional Services”**

The Committee considered the second draft of the proposed revised Section 250 which sought to incorporate the requirements under Section 450 “Practice Promotion” and agreed matters as follows:

- a. The revised Section 250 should apply to network firms.
- b. The revised Section 250 should state explicitly that quotation of scale charges should be avoided in relation to engagements where the amount of work required cannot be defined in advance and would depend on the nature of the job and the judgement of the professional accountant. This would apply to audit engagements.
- c. An entity that elects to early adopt the revised Section 250 would also be required to early adopt the revised definition of a network firm;
- d. The revised Section 250 should be exposed.
- e. Revised sections in Part D should be exposed in blocks together with other proposed revised sections.

**3. Section 240 “Fees and Other Types of Remuneration”**

The Committee considered whether paragraph 450.13 of Section 450 “Practice Promotion”, which prohibits the payment of commission to a third party other than a professional accountant in return for the introduction of a client, should be incorporated into Section 240.

The Committee agreed that:

- a. Payment of commission should not be prohibited. Instead, there should be a requirement to require the application of appropriate safeguards to ensure that it would be paid in a proper manner so that independence would not be compromised.
- b. In respect of payment of commission within the firm, key audit partners should be restricted from being compensated for selling non-assurance services to audit or review clients.
- c. There should be mandatory disclosure of the payment of commission to the clients concerned.

**4. Section 210 “Professional Appointment”**

The Committee had a preliminary discussion on how Section 440 “Changes in a Professional Appointment” and Section 441 “Change of Auditors of a Listed Issuer of The Stock Exchange of Hong Kong” should be incorporated into Section 210. It was tentatively agreed to continue to mandate obtaining professional clearance for a change in an audit appointment.

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