



Ethics Committee
Meeting Summary - February 2006

The Ethics Committee (Committee) met on 14 February 2006.

Members of the Committee present were: Mark Fong (Chairman), Doug Oxley (Deputy Chairman), Keith Pogson (Deputy Chairman), Albert Au, Barbara Chan, Wilson Chan, Paul Cheng, Eric Fok, Charles Grieve, Lucia Li and Raymond Ng.

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

The Committee discussed the following items:

1. Welcome to new members
2. Meeting schedule for 2006
3. International Ethics Standards Board for Accountants Meeting – 20-22 February 2006 in New York

1. Welcome to new members

The Chairman welcomed Messrs. Albert Au, Paul Cheng and Raymond Ng to their first meeting of the Committee and introduced Mr. Keith Pogson as the new Deputy Chairman.

2. Meeting schedule for 2006

The Committee approved the proposed meeting schedule for 2006.

3. International Ethics Standards Board for Accountants (IESBA) Meeting – 20-22 February 2006 in New York

The Committee discussed the following agenda items of the IESBA Meeting which would be attended by the Chairman:

a. Network firm

i. Alignment with EU 8th Directive

The Committee discussed and supported that the revised definition of network firm should be aligned with the EU 8th Directive wording.

ii. Comments on proposed revised definition

The Committee went through the draft revised definition and the relevant paragraphs in Section 290. Comments were made in respect of the meaning of the term “common business strategy”, the position of firms associated themselves solely to respond jointly to a proposal for the provision of an assurance services to a specific entity and the position of firms with common brand name.

iii. Effective date

The Committee supported the proposed effective date to be for assurance reports dated on or after 31 December 2007.

b. Independence

The Committee considered the issues papers prepared by the IESBA secretariat on the following topics:

i. Management functions

The Committee did not reach a consensus view on whether there should be a distinction between audit clients and other assurance clients in considering threats from performing management functions for assurance client.

The Committee did not support having specific examples of management functions but considered it appropriate to define the activities that would not be regarded as management functions.

ii. Public interest entities (PIEs)

The Committee considered that the definition of PIEs should be left to the relevant local regulatory bodies to decide and the Institute should liaise with local regulatory bodies if the IESBA decides to extend the additional audit independence requirements to PIEs.

iii. Partner rotation requirements

The Committee agreed that the appropriate length of the rotation should remain at seven years with a two-year time-out period and there should be no concession for smaller firms.

iv. Partner remuneration

The Committee generally considered that there are pragmatic difficulties in addressing partner remuneration in the Code of Ethics as the issue links to performance assessment.

The Committee supported that the potential threats arising from partner remuneration schemes could be addressed through a generic discussion without specifying any specific restrictions on remuneration.

c. Ethics guidance for PAIB when encountering fraud or illegal acts

The Committee noted that the IESBA would be considering a proposed expansion of the scope of the project to cover communications between the incoming and existing auditors and situations where the auditor should communicate matters outside of the entity.

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