



20 July 2020

**To: Members and practice units of the Hong Kong Institute of CPAs
All other interested parties**

**INVITATION TO COMMENT ON EXPOSURE DRAFT OF THE CODE OF ETHICS FOR
PROFESSIONAL ACCOUNTANTS – CHAPTER G SECTION 100 PROFESSIONAL
ETHICS RELEVANT TO ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST
FINANCING COMPLIANCE FOR ACCOUNTING PROFESSIONALS**

Comments to be received by 28 August 2020

The Institute is seeking comments on the above-referenced exposure draft (ED), which has been posted on the Institute's website at:

<https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Open-for-comment-documents/Code-of-Ethics>

The Institute is the regulatory body of accounting professionals, which are defined in the Anti-money Laundering and Counter-terrorist Financing Ordinance (AMLO) as certified public accountants (CPAs) and practice units.

The Institute has had an AML / CTF compliance monitoring programme covering practice units since October 2018. However, many professional firms owned or controlled by CPAs and practice units provide a wider variety of professional services than practice units themselves as practice units primarily offer audit and assurance services and make other professional services available through a network or affiliated professional service entities for reasons such as to segregate duties to safeguard independence. These other professional services may involve specified transactions defined in paragraphs 600.2.1 and 600.2.2 of the Guidelines on AML / CTF for Professional Accountants (Chapter F of the Code of Ethics for Professional Accountants (the Code)) that give rise to higher money laundering and terrorist financing risks and therefore warrant more intensive supervision and monitoring.

The Institute sent an alert¹ to all members and practice units in June 2020 to set out its plan to enhance risk-based supervision of accounting professionals concerning AML / CTF compliance to properly discharge its regulatory responsibilities. The key actions under the plan include widening the supervision scope on an incremental basis², risk profiling of constituents and targeting reviews for higher-risk constituents. Further details of the key actions are set out in the alert. In order to facilitate the Institute to carry out the actions to enhance risk-based supervision, the Institute proposes, based on legal advice, to impose two obligations on members through the Code of Ethics, namely (1) an obligation on CPAs and practice units to provide information, including responses to questionnaires, to the Institute for regulatory purposes and (2) an obligation on those charged with governance of practice units and related CPAs to make sure that HK Network and Professional Service Entities³ that are under their control comply with applicable AML/CTF laws and regulations as if they were a practice unit.

¹ Alert 34: <https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/QA/2020/Issue-34---Risk-based-supervision-of-accounting-professionals.pdf>

² The Institute intends to widen its risk-based AML / CTF supervision scope to ultimately cover, in addition to practice units, other professional firms set up or controlled by CPAs or practice units unless those firms are regulated by other AML / CTF regulators in Hong Kong. Given that it is expected that the potential extended coverage will be significant, the expansion will be done on an incremental basis until the intended coverage is achieved.

³ HK Network and Professional Service Entities include (1) network firms located in Hong Kong that provide any of the professional services specified in the ED; and (2) professional service entities whose owners, shareholders or partners are all CPAs and / or practice units.



Against the above background, this ED sets out the additional professional ethics requirements to address the two obligations that are required to be complied with by CPAs and practice units to preserve and maintain the reputation, integrity and status of the accounting profession and to facilitate the Institute to carry out its regulatory function, in addition to those set out in other chapters of the Code and other professional standards.

Comments on the ED should be supported by specific reasoning and should be submitted in written form. To allow your comments on the ED to be given due consideration, you are requested to send them to the Institute, at the latest, by **28 August 2020**.

Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

July 2020
Exposure Draft

Response due date
28 August 2020

Code of Ethics for Professional Accountants
ED of Chapter G Section 100

Professional Ethics Relevant to Anti-Money Laundering and Counter-Terrorist Financing Compliance for Accounting Professionals



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

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The Invitation to Comment can also be found on the Institute's website at:
<https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Open-for-comment-documents/Code-of-Ethics>



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

Effective on [Date]

Code of Ethics for Professional Accountants
Chapter G Section 100

Professional Ethics Relevant to Anti-Money Laundering and Counter-Terrorist Financing Compliance for Accounting Professionals



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

CHAPTER G
SECTION 100
PROFESSIONAL ETHICS RELEVANT TO ANTI-MONEY
LAUNDERING AND COUNTER-TERRORIST FINANCING
COMPLIANCE FOR ACCOUNTING PROFESSIONALS

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CHAPTER G**SECTION 100****Professional Ethics Relevant to Anti-Money Laundering and Counter-Terrorist Financing Compliance for Accounting Professionals**

This chapter should be read in conjunction with the Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants (Chapter F of the Code of Ethics for Professional Accountants ("Code")) ("AML Guidelines").

Part 1 – Introduction

- 100.1 The Institute is the regulatory body of accounting professionals, defined in the AMLO as CPAs and practice units.
- 100.2 The Institute has had an AML / CTF compliance monitoring programme covering practice units since October 2018. However, many professional firms owned or controlled by CPAs and practice units provide a wider variety of professional services than practice units themselves as practice units primarily offer audit and assurance services and make other professional services available through a network or affiliated professional service entities for reasons such as to segregate duties to safeguard independence. These other professional services may involve the specified transactions defined in paragraphs 600.2.1 and 600.2.2 of the AML Guidelines that give rise to higher ML / TF risks and therefore warrant more intensive supervision and monitoring.
- 100.3 The Institute sent an alert¹ to all members and practice units in June 2020 to set out its plan to enhance risk-based supervision of accounting professionals concerning AML / CTF compliance to properly discharge its regulatory responsibilities. The key actions under the plan include widening the supervision scope, risk profiling of constituents and targeting reviews for higher-risk constituents. Further details of the key actions are set out in the alert.
- 100.4 Against the above background, this chapter sets out the additional professional ethics requirements that are required to be complied with by CPAs and practice units to preserve and maintain the reputation, integrity and status of the accounting profession and to facilitate the Institute to carry out its regulatory function, in addition to those set out in other chapters of the Code and other professional standards.

¹ Alert 34: <https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/QA/2020/Issue-34---Risk-based-supervision-of-accounting-professionals.pdf>

Part 2 – Constituent responsibilities and obligations

Scope

- 100.5 For avoidance of doubt, the use of the word “shall” in this part imposes a requirement on the constituents to comply with the specific provisions in which “shall” has been used. Compliance is required unless an exception is permitted by this part.
- 100.6 This part defines the responsibilities and obligations of relevant constituents in relation to AML / CTF, in addition to those set out in other parts and chapters of the Code and other professional standards.
- 100.7 The Institute intends to widen its scope of supervision on an incremental basis. Initially, the plan is to extend the scope of supervision from practice units to cover HK Network and Professional Service Entities. This part therefore will have to be revised along with the development of the supervision plan. For the time being, this part applies to the following constituents:
- (a) CPAs who by way of business provide professional services to clients;
 - (b) Practice units;
 - (c) Sole proprietors, directors and partners of practice units; and
 - (d) Those charged with governance of HK Network and Professional Service Entities who are CPAs.

Obligations to provide information

- 100.8 The Institute will from time to time request information from its relevant constituents concerning professional services and activities that they undertake, either directly or through HK Network and Professional Service Entities, relevant AML / CTF policies, procedures and controls and other AML / CTF compliance matters. Examples of the use of the information collected may include:
- (a) Developing, maintaining and updating a sectoral ML / TF risk assessment of the Hong Kong accounting profession;
 - (b) Developing, maintaining and updating an institutional ML / TF risk assessment of constituents in the Hong Kong accounting profession; or

(c) Developing, maintaining and updating a risk-based supervision plan concerning AML / CTF compliance by accounting professionals.

100.9 In particular, the Institute will regularly arrange profession-wide questionnaires to collect AML / CTF related information from its constituents for supervisory and monitoring purposes. Information requests may be also arranged on an ad hoc basis from all or a special group of constituents to collect information in response to the latest development in AML / CTF compliance.

100.10 Constituents shall provide information, including responses to questionnaires, requested by the Institute within the time frame specified to help the Institute discharge its regulatory responsibilities.

100.11 Unless constituents have a reasonable excuse which has been explained to the Institute in writing within the time frame specified, failure or neglect to provide the information requested by the Institute for regulatory purposes shall result in a complaint being raised and might consequently lead to disciplinary action against the constituents.

100.12 The Institute, through its Practice Review Committee, will consider the excuse provided to assess whether it is an acceptable reasonable excuse and, if it is not, will give a direction to the relevant constituent to provide the information requested within a defined time frame. If the relevant constituent fails to follow the direction given, the Practice Review Committee will refer the matter as a complaint to Council of the Institute, via the Registrar, to determine whether to refer the matter to disciplinary proceedings.

Obligations over HK Network and Professional Service Entities

100.13 CPAs and practice units might provide professional services to clients through HK Network and Professional Service Entities and act, either directly or through their representatives, as those charged with governance of the relevant HK Network and Professional Service Entities.

100.14 Those charged with governance of HK Network and Professional Service Entities who are CPAs should be in a position to participate in decision making on the development, implementation and monitoring of the AML / CTF policies, procedures and controls over their relevant HK Network and Professional Service Entities to ensure they comply with relevant AML / CTF laws and regulations. Further, in light of the public trust placed on and the standard of integrity expected

of accounting professionals, such HK Network and Professional Service Entities will also be expected by the community to have in place adequate AML / CTF policies, procedures and controls which are commensurate with those for practice units.

100.15 Accordingly, as part of their involvement, those charged with governance shall exercise due care to ensure their relevant HK Network and Professional Service Entities comply with applicable AML / CTF laws and regulations as if they were a practice unit and shall demonstrate the actions taken when so requested by the Institute unless the relevant HK Network and Professional Service Entities or their activities are directly regulated by other AML / CTF regulators in Hong Kong, such as the Registrar of Companies for trust or company service provider licensees.²

100.16 Evidence that may demonstrate the actions taken includes evidence of:

- (a) An adequate understanding of whether uniform AML / CTF policies, procedures and controls are being applied within the relevant practice units and HK Network and Professional Service Entities and, if they are not, the key differences;
- (b) Participation in a firm-wide or group-wide ML / TF risk assessment that includes the relevant HK Network and Professional Service Entity or Entities to ensure that due efforts are attended to those services or areas identified to have higher ML / TF risk exposure; or
- (c) Participation in a firm-wide or group-wide compliance review that includes the relevant HK Network and Professional Service Entity or Entities to ensure appropriate follow up actions are developed and will be adequately followed through.

100.17 Under the current practice review regime, practice units are subject to an AML / CTF Compliance Monitoring Review (ACMR). In a practice review, the practice reviewer will assess whether the practice unit has directly or indirectly taken appropriate actions to ensure its relevant HK Network and Professional Service Entity or Entities have complied with applicable AML / CTF laws and regulations as if they were a practice unit. The same procedures will be applied to a deficiency

² It should be noted that a CPA who, while being a director of a corporation that is a trust or company service provider licensee, caused or allowed a breach of an AML/CTF requirement by the corporation; or failed to take reasonable steps to prevent such a breach may also be subject to a complaint under section 34(1)(a)(xv) of the PAO.

identified in the above respect as other deficiencies identified in a practice review. Statement 1.401 *Review Procedures and Conduct of Members* sets out more details about the practice review procedures.

Other responsibilities and obligations

100.18 In addition to the above, the Institute may consider a need to define more constituent responsibilities and obligations in this part to facilitate discharge of its AML / CTF regulatory responsibilities in future.

Glossary

100.19 In this chapter of the Code, the following expressions have the following meaning:

AMLO	Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615)
AML / CTF	Anti-money laundering and counter-terrorist financing
AML / CTF regulators in Hong Kong	The relevant authorities and regulatory bodies referred to in the AMLO.
CPA	A person registered as a certified public accountant by virtue of section 22 of the PAO.
Constituents	The accounting professionals described in paragraph 100.7.
HK Network and Professional Service Entities	These include: <ul style="list-style-type: none"> (a) network firms located in Hong Kong that provide any of the professional services specified in this chapter of the Code; and (b) Professional Service Entities whose owners, shareholders or partners are all CPAs and / or practice units.
ML / TF	Money laundering and terrorist financing.

Network and network firm As defined in the Code, a network is a larger structure (a) that is aimed at co-operation; and (b) that is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

For the purposes of this chapter of the Code, a network firm is a firm or entity that belongs to the same network as a practice unit, but excluding the practice unit.

Practice unit As defined in the PAO, a practice unit is:

- (a) A firm of CPA (practising) practising accountancy pursuant to the PAO;
- (b) A CPA (practising) practising accountancy on his own account pursuant to the PAO; or
- (c) A corporate practice.

PAO Professional Accountants Ordinance (Cap. 50).

Professional services Services requiring accountancy or related skills of a CPA, primarily:

- (a) Audit and assurance services (including reporting accountant work in initial public offerings) (note: these services have to be performed by a practice unit);
- (b) Book-keeping and preparation of annual and periodic accounts;
- (c) Tax compliance work;
- (d) Tax advice or tax planning;
- (e) Trust and company services;
- (f) Internal audit (as a professional service), and consultation or advice on internal control and risk management;

- (g) Regulatory and compliance services, including outsourced regulatory examinations and remediation services;
- (h) Company liquidation, insolvency, receiver-managers, bankruptcy related services;
- (i) Consultation or advice on the structuring of transactions;
- (j) Consultation or advice on or due diligence or valuation work in relation to mergers and acquisitions or real estate, equity or financial transactions;
- (k) Succession advice, estate management, consultation or advice on probate;
- (l) Advice on investments, custody of client money or assets and management of bank, savings or securities accounts; and
- (m) Forensic accounting.

Professional Service Entity An entity (other than a practice unit) that provides any of the professional services specified in this chapter of the Code.

Those charged with governance As defined in the Code, those charged with governance means:

The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Effective date

100.20 This chapter of the Code is effective on [].