



30 March 2012

Our Ref.: C/EC

International Ethics Standards Board for Accountants
545 Fifth Avenue, 14th Floor
New York
New York 10017
USA

Dear Sirs,

[IESBA Exposure Draft of Proposed Changes to the Code of Ethics for Professional Accountants Addressing Conflicts of Interest](#)

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned IESBA Exposure Draft.

HKICPA is supportive of the goal to provide additional clarity and guidance to these provisions, ensuring that reasonable steps are taken to identify circumstances that could pose a conflict of interest, and how these instances may create threats to compliance with fundamental principles expected of the profession. Please find in the attachment our comments on the specific questions asked.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please do not hesitate to contact me at ong@hkiipa.org.hk.

Yours faithfully,

Steve Ong, FCA, FCPA
Director, Standard Setting Department

SO/AW/jn

Encl.



**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON
THE IESBA EXPOSURE DRAFT ON PROPOSED CHANGES TO THE CODE OF ETHICS
FOR PROFESSIONAL ACCOUNTANTS TO ADDRESS CONFLICTS OF INTEREST**

Request for Specific Comments

1. Do respondents find the description and examples of conflicts of interest helpful?

We consider the description set out in both paragraphs 100.17 and 220.1, and the examples set out at paragraph 220.2 helpful. We do caution, however, that whenever a listing of examples is provided, this may inadvertently cause the reader to narrow the focus of their own determination to the situations provided, rather than appreciating that these are intended for illustration only, and do not necessarily represent an exhaustive list of what might represent a case of conflict. Accordingly, we would recommend the purpose of such a listing of examples to be made clear.

Matters specific to professional accountants in public practice (Section 220 of the Code)

2. Do respondents find the reasonable and informed third party standard appropriate?

We would assume "reasonable and informed third party" refers not only to a professional accountant but a "general reasonable and informed third party". Accordingly, we consider such a reasonable and informed third party standard appropriate.

3. Do respondents find the "reason to believe" threshold for network firms in evaluating conflicts of interest appropriate?

We consider the "reason to believe" threshold for network firms appropriate. While we appreciate that this represents a new requirement, the evaluation criteria only requires the professional accountant to take into account information known at the time the matter is considered. Hence, we do not find the new requirement onerous or unreasonable.

We understand from the explanatory memorandum that the "reason to believe" test requires the professional accountant to consider the facts available to the professional accountant at that time. We would recommend the IESBA to consider including such explanation in the proposed paragraph 220.5 to enable a better understanding and application by practitioners.



4. Do respondents find the guidance concerning safeguards to manage conflicts of interest and obtaining and documenting consent, as set out in paragraph 220.7, appropriate?

We consider the guidance concerning safeguards set out in paragraph 220.7 to be generally appropriate. However, we would recommend the IESBA to reword the guidance on "in certain circumstances the consents obtained from any relevant party may be implied by the party's conduct in keeping with common commercial practice". The wording of the proposed guidance is so vague that different wordings should be used to describe the intention of the Exposure Draft.

5. Do respondents concur with the three conditions set out in paragraph 220.8 required to be met before a professional accountant can proceed to accept or continue with an engagement when a conflict of interest exists but consent cannot be obtained because it would in itself breach confidentiality? Are the examples within paragraph 220.8 helpful?

We concur with the three conditions set out in paragraph 220.8 required to be met before a professional accountant can proceed to accept or continue with an engagement when a conflict of interest exists but consent cannot be obtained because it would in itself breach confidentiality. It is only reasonable that, where a conflict of interest has been identified, a professional accountant be expected to proceed with both caution and sensitivity.

We also consider the examples to be helpful, as those cases cannot be resolved through customary means (i.e. obtaining written or verbal consent to continue); thus, the onus must be upon the practitioners to demonstrate adequate safeguards and the protection of the client(s) in such an instance. However, the IESBA may want to re-consider or elaborate further on the first example (i.e. performing a transactional-related service for a client in connection with a hostile takeover of another client of the firm). We consider "hostile" by definition is adversarial to another client's position and firms are not likely to be able to fulfill the condition of not acting in an advocacy role for one client by assuming an adversarial position against the other client and hence would not be able to accept such engagements anyway.

Matters specific to professional accountants in business (Section 310, 320 and 340 of the Code)

6. Do respondents agree with the general requirement to identify, evaluate and manage conflicts of interests as set out in proposed Section 310 of the Code?

We agree with the general requirement to identify, evaluate and manage conflicts of interests as set out in proposed Section 310 of the Code.



7. Do respondents find the reasonable and informed third party test appropriate?

We believe that the reasonable and informed third party test is as appropriate in Section 220 as it is in Section 310 of the Code.

8. Do respondents find the conforming changes proposed for Sections 320 and 340 useful? Are they appropriate and adequate?

We consider the conforming changes proposed in Sections 320 and 340 to be useful. We also believe that the guidance on managing threats is appropriate and adequate.

We noted that the wording "prepare or report information in a misleading way..." was added in paragraph 320.4 and for consistency we would recommend to add similar wordings to paragraph 320.7.

Other

9. Do respondents agree with the impact analysis as presented? Are there any other stakeholders, or other impacts on stakeholders, that should be considered and addressed by the IESBA?

We are supportive of the goal to provide additional clarity and guidance to these provisions, ensuring that reasonable steps are taken to identify circumstances that could pose a conflict of interest, and how these instances may create threats to compliance with fundamental principles expected of the profession. We do not have any comment on the impact analysis.

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