Explanatory Memorandum

Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

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

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Foreword

This explanatory memorandum (“memorandum”) provides background information to the proposed local refinements to the definitions of listed entity and public interest entity (“PIE”) within Part 4A, Chapter A of *Code of Ethics for Professional Accountants* (“Code”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA” or the “Institute”).

I. Reasons for issuing this exposure draft

1. In April 2022, the International Ethics Standards Board for Accountants ("IESBA") issued the final pronouncements, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code ("PIE provisions"), to Part 4A of the *International Code of Ethics for Professional Accountants (Including International Independence Standards)* ("IESBA Code"). Part 4A of the IESBA Code sets out independence standards for audit and review engagements.[1]

2. The PIE provisions revised the definitions of a listed entity and a public interest entity ("PIE") in the IESBA Code by specifying a broader list of categories of entities as PIEs whose audits and reviews should be subject to additional independence requirements, to meet stakeholders' heightened expectations concerning auditor independence. One of the objectives of the PIE provisions is to ensure the concept of PIE remains relevant and fit for purpose, and to reflect developments in:
   - Capital markets and other forms of capital raising; and
   - The range of entities that have public interest significance beyond capital markets.

3. The IESBA's PIE provisions will be effective for audits and reviews of financial statements for periods beginning on or after 15 December 2024.

4. The Institute's Code is based on the IESBA Code. Chapter A of the Institute's Code is converged with the IESBA Code.

5. As part of the ongoing effort to align the Code with the IESBA Code, the Institute's Ethics Committee ("Ethics Committee") has developed this exposure draft ("ED") to set out the proposed local refinements on the definitions of PIE to be adopted in Part 4A, Chapter A of the Code ("Part 4A of the Code") within the Hong Kong context.

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[1] In this ED, the terms "audit", "audit engagement" and "audit report" apply equally to review, review engagement and review engagement report.

6. The overarching focus of the PIE provisions is on the financial condition of an entity and not on other aspects of the entity, its business or operations.[2] Accordingly, the revised PIE definition only deals with independence standards for audits and reviews of financial statements set out in Part 4A of the IESBA Code and consequently, Part 4A of the Institute's Code. The PIE provisions and proposed refinement in this ED do not affect the PIE definition set out in other laws or regulations in Hong Kong. For example, the proposals in this ED do not have any impact or interaction with the definition of PIE in section 3(1) of the Accounting and Financial Reporting Council Ordinance (Cap. 588) ("AFRCO").

7. There are three mandatory categories to the revised PIE definition. The IESBA Code provides for jurisdictional ethics standard-setting bodies to define these mandatory categories more precisely to take account of the local context. The IESBA Code further allows for additional PIE categories to be specified by a jurisdiction's laws, regulations, or professional standards.

8. In IESBA's Proposed Revisions to the Definition of Listed Entity and PIE in the Code published in 2021, post-employment benefits ("PEBs") and collective investment vehicles ("CIVs") were included in the proposed list of mandatory PIE categories taking into account the likelihood of these categories being adopted by most jurisdictions as PIEs and their impact on a large number of stakeholders in the event of a financial failure for entities in those two categories. However, having reflected on the feedback from respondents, the IESBA decided to remove PEBs and CIVs from the mandatory list in its final pronouncement.

9. Despite the IESBA's decision outlined in paragraph 8, the Ethics Committee considered that pension funds and funds authorized by the Securities and Futures Commission ("SFC") are potential categories of PIEs in Part 4A of the Code given the specific circumstances in Hong Kong. Paragraphs 99 to 144 of this memorandum contain a detailed analysis and conclusion regarding their classification.

10. The Ethics Committee also noted other possible PIE categories identified by the IESBA such as charities, financial market infrastructure providers, public utilities and

[2] Paragraphs 400.8 and 400.10 of the PIE revisions.

systemically significant entities.[3] The IESBA reached the view that whilst some of these categories may have applicability in specific jurisdictions, they do not necessarily attract significant public interest in their financial condition across the majority of jurisdictions. Consequently, the IESBA agreed that it was not appropriate to include them as PIE categories at a global level.

11. Considering the wide range of possible PIE categories and the limitations posed by time constraints, the Ethics Committee has decided to adopt a two-phase approach in refining the PIE definition at the local standard-setting level:
    - Phase 1 focuses on refining the IESBA's mandatory PIE categories in a local context as well as deliberating on the classification of pension funds and funds authorized by the SFC as PIEs; and
    - Phase 2 will encompass further research on any potential additional PIE categories described in paragraph 10 above. This may lead to another round of public consultation to include other categories of entities to the local definition of PIE in Part 4A of the Code in due course. For a more detailed discussion, please refer to paragraph 158 of this memorandum.

12. The following is a summary of the Ethics Committee's proposals in this ED to refine the PIE definition in Part 4A of the Code:

    (a) Mandatory PIE categories

        (i) The first mandatory PIE category is publicly traded entities ("PTE"), which includes entities that issue financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. With regard to local adoption, the Ethics Committee does not propose any refinement to the definition of PTE as defined by the IESBA in the PIE provisions.

        (ii) The second mandatory PIE category is entities whose main function is to take deposits from the public. Considering the circumstances in Hong Kong, the Ethics Committee proposes a more precise definition that licensed banks ("LBs"), as defined under the Banking Ordinance (Cap.

[3] Paragraph 64, IESBA's Basis for Conclusions to the PIE provisions.

155) ("BO"), are PIEs under this category, except where there is no statutory requirement for audit engagements to be performed.

(iii) The third mandatory PIE category is entities whose main function is to provide insurance to the public. Given the unique context of Hong Kong, the Ethics Committee proposes that authorized insurers, as defined under the Insurance Ordinance (Cap. 41) ("IO"), are PIEs under this category except for:

- Captive insurers; and
- Insurers where there is no statutory requirement for audit engagements to be performed.

(b) Additional PIE categories

The Ethics Committee proposes to classify the following entities as PIE:

- Mandatory Provident Fund ("MPF") Schemes ("MPF schemes"), as registered under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) ("MPF Ordinance").
- Occupational Retirement Schemes ("ORSO schemes"), as registered under the Occupational Retirement Schemes Ordinance (Cap. 426) ("ORSO Ordinance") with total assets exceeding HK$100 million by reference to the most recent set of audited financial statements. If such audited financial statements are not available, firms should make the determination based on the most recent available information which indicates the asset size of the scheme.

II. Background

13. The Institute is the only statutory body in Hong Kong that sets ethical standards for professional accountants in Hong Kong.

14. Since 2005, the Institute has adopted the IESBA Code as part of the Institute's Code. Chapter A of the Institute's Code is converged with the IESBA Code.

15. One of the roles of the Ethics Committee as delegated by the Institute's Council is to adopt standards and guidelines on ethics for professional accountants by following due process. In doing so, the Ethics Committee considers the need to maintain convergence with pronouncements issued by the IESBA as part of the due process.[4]

16. The PIE provisions recognize the essential role of local bodies for the adoption of the IESBA Code in delineating the specific entities that should be scoped in as PIEs in their jurisdictions, encouraging them to properly refine the PIE categories in the expanded definition and adding any other categories relevant to their environments. Further, the PIE revisions introduce a transparency requirement for audit firms to publicly disclose the application of independence requirements for PIEs where they have done so.

17. In approving the revisions to the definitions of listed entity and PIE, the IESBA has determined that certain categories (such as charities, financial market infrastructures, public utilities and systemically significant entities) do not have sufficient public interest to be categorized as PIEs at a global code level and relevant local bodies might consider including some of them as PIEs in their local codes.

18. In addition, the following key elements are included in the overall framework used by the IESBA:
    - An overarching objective that explains the need for additional independence requirements for entities that are defined as PIEs.
    - A top-down list of mandatory high-level PIE categories subject to local refinement.
    - A bottom-up list of PIE categories that could be added by relevant local bodies to the local PIE definitions.

[4] Terms of Reference of HKICPA's Ethics Committee for the year 2023.

- An encouragement for firms to determine whether to treat additional entities as PIEs with a transparency requirement.

19. As a result of the IESBA's PIE provisions, the Ethics Committee proposes to amend Part 4A of the Code to incorporate the changes made by the IESBA to the IESBA Code, with local refinements to define PIE more explicitly to align with the circumstances in Hong Kong.

20. In March 2022, the Ethics Committee embarked on its consultation process with relevant regulators, industry specific practitioners and other stakeholders in Hong Kong to determine the necessary local refinements to the PIE definition within the context of Part 4A of the Code.

21. The consultation process included:
    - Obtaining comments from the Accounting and Financial Reporting Council ("AFRC") within their oversight mandate of the HKICPA's performance of specified functions, which include issuing or specifying standards on professional ethics, in accordance with Section 9 of the AFRCO.
    - Obtaining comments from various regulators in Hong Kong. They are, in alphabetical order:
        - Hong Kong Exchanges and Clearing Limited ("HKEX");
        - Hong Kong Monetary Authority ("HKMA");
        - Insurance Authority ("IA");
        - Mandatory Provident Fund Schemes Authority ("MPFA"); and
        - SFC.
    - Soliciting feedback from the regulatory advisory panels for banking, insurance and investment funds under the auspices of the Institute's Auditing and Assurance Standards Committee. These advisory panels consist of professional accountants working in the industry and practitioners who specialize in auditing these entities within those sectors;
    - Attending an international panel discussion on PIE with standard setters of other jurisdictions;
    - Performing extensive desktop research of the industries covered by the Institute's proposals; and

- Gathering information of the local refinements to the definition of PIE in other jurisdictions.

III. Overview of the Institute's proposed local refinement

22. As explained in paragraph 16 of this memorandum, the PIE provisions recognize the essential role local bodies play in the adoption of the IESBA Code by delineating the specific entities that should be scoped in as PIEs in their jurisdictions.

23. Paragraph 400.18 A1 of the PIE provisions explains that the mandatory categories set out in paragraph R400.17(a), (b) and (c) are broadly defined and that the IESBA Code provides for the relevant local bodies to more explicitly define these categories. To fully adopt the IESBA's revised PIE definition, a relevant local body must not exclude any of the mandatory categories set out in paragraph R400.17(a), (b) and (c) from its local definition.[5]

24. The following categories of entity are captured by the IESBA's "top-down" approach as mandatory PIEs:

R400.17	For the purposes of this Part, a firm shall treat an entity as a PIE when it falls within any of the following categories: (a) A publicly traded entity; (b) An entity one of whose main functions is to take deposits from the public; (c) An entity one of whose main functions is to provide insurance to the public; or (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.10.

25. Paragraph 400.18 A1 of the PIE provisions provides a list of examples of how such local bodies may refine the PIE definition at the local level, for example:
    - Making reference to specific public markets for trading securities.
    - Making reference to the local law or regulation defining banks or insurance companies.
    - Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.
    - Setting size criteria for certain types of entities.

[5] IESBA's Questions and Answers Publication on the revisions to the definitions of listed entity and PIE (March 2023)

26. Accordingly, the Ethics Committee has undertaken steps to refine the PIE definition in paragraph R400.17(a), (b) and (c) in the Hong Kong context. Paragraphs 44 to 97 of this memorandum explains the Ethic Committee's consideration and refinement proposals.

27. The following paragraph anticipates that local standard-setting body should consider adding any other categories relevant to their environments as PIEs in a local context using the "bottom-up" approach:

400.18 A2	Paragraph R400.17(d) anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of PIEs to meet the purpose described in paragraph 400.10, taking into account factors such as those set out in paragraph 400.9. Depending on the facts and circumstances in a specific jurisdiction, such categories could include: (a) Pension funds. (b) Collective investment vehicles. (c) Private entities with large numbers of stakeholders (other than investors). (d) Not-for-profit organizations or governmental entities. (e) Public utilities.

28. Paragraphs 99 to 144 of this memorandum explains the Ethic Committee's consideration and refinement proposals to pension funds and collective investment vehicles ("CIVs") in the Hong Kong context.

29. The proposed local refinements in this ED have considered a range of entities in Hong Kong, including financial institutions, pension funds and CIVs. In this memorandum, the following paragraphs shaded in grey are the Ethics Committee's proposals to define certain entities as PIEs within Part 4A of the Code:
    - Deposit-taking entities: Paragraphs 84 to 86;
    - Insurers: Paragraph 98; and
    - Pension funds: Paragraph 128.

30. The AFRC, when providing its comments on the Institute's proposed ED, highlighted that for Hong Kong to maintain its position as a leading international financial centre,

Hong Kong should take a broad, strategic view on the issue of public interest and proactively examine potential issues based on the overarching objectives set out in paragraphs 400.8 to 400.10 of the PIE provisions. This would include a consideration of entities such as funds authorized by the SFC ("SFC-authorized funds") and organizations that handle client assets as part of their primary business. Accordingly, certain entities beyond those discussed in this ED would be considered in the Institute's next phase of local refinement to the PIE definition ("Phase 2"), which might result in defining additional categories of PIE in the context of Part 4A of the Code. The Ethics Committee will commence research on any potential additional PIE categories in 2024 and it will issue a public consultation in due course.

31. Notwithstanding the above (and before the conclusion of the Phase 2 activities and any resulting amendment), in accordance with paragraph 400.19 A1 of the PIE provisions, firms are encouraged to determine if additional entities should be treated as PIEs for the purposes of Part 4A of the Code by considering the list of factors in that paragraph and the ones in paragraph 400.9.

Additional note for other assurance engagements

32. A question arises as to whether the revised PIE definition applies to assurance engagements that are neither an audit nor a review of historical financial information. This is particularly relevant as there are many branches of foreign financial institutions operating in Hong Kong (most notably banks and insurers)[6] that require regulatory filings subject to independent assurance.

33. Part 4A of the Code comprises the independence standards that are applicable to audit[7] and review engagements,[8] whereas Part 4B in Chapter A of the Code comprises the

[6] As of December 2022, approximately 129 out of 182 authorized institutions ("AIs") and 98 out of 164 insurers operated in Hong Kong as branches of foreign groups.

[7] In the Institute's Code, audit engagement is defined as "A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with Hong Kong Standards on Auditing. This includes a Statutory Audit, which is an audit required by legislation or other regulation."

[8] In the Institute's Code, review engagement is defined as "An assurance engagement, conducted in accordance with Hong Kong Standards on Review Engagements or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework."

independence standards for assurance engagements other than audit and review engagements.

34. When there is no statutory requirement for an audit or review of financial statements for branches of overseas incorporated entities in Hong Kong, Part 4A of the Code does not apply. Please also refer to paragraphs 68 to 75 for a discussion of local branches of foreign banks and paragraphs 92 to 96 for local branches of foreign insurers.

35. It is important to note that the IESBA has not made any amendment to Part 4B of the IESBA Code which sets out the independence requirements for assurance engagements, which would include engagements reported under ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. In the Hong Kong context, assurance engagements other than audits or review of historical financial information include those for banking returns, insurance returns or sustainability reports.

36. In terms of group audits, the extant HKSA 600, *Special Considerations–Audits of Group Financial Statements (Including the Work of Component Auditors)* interacts with the Code's independence requirements. HKSA 600 requires the group engagement team to obtain an understanding of whether a component auditor understands and will comply with the ethical requirements relevant to the group audit and, in particular, is independent.[9] However, the meaning of the phrase "ethical requirements that are relevant to the group audit" is not addressed in the extant HKSA 600 or the Code. For example, the extant Code does not address the case when a parent entity is a PIE but the component is not a PIE and the component is audited by a non-network firm, as to whether the component auditor would need to follow the independence requirements that apply to PIE audits.

37. Be that as it may, the group auditor may request the component auditor to comply with specific independence requirements that are relevant to the group, especially in the case where there is no statutory audit requirement on the financial information of the component (e.g. Hong Kong branches of foreign companies) and the component auditor conducts an audit of the component for group reporting purposes only.

[9] HKSA 600, paragraph 19(a).

38. On a related note, the IESBA has recently revised[10] a number of independence requirements in the group audit context. The revisions include:

- Specifying the need for, and content of, appropriate communication on independence matters between the group auditor firm and component auditor firms participating in the group audit;
- More explicitly set out the process to address a breach of an independence provision at a component auditor firm, reinforcing the importance of transparency and appropriate communication with those charged with governance of the group;
- Amend the definitions of the terms "engagement team" and "audit team" in the IESBA Code; and
- Provide guidance to facilitate the determination of who is included in an engagement team or an audit team.

39. The International Auditing and Assurance Standards Board ("IAASB") has commenced various projects to consider the impact of the revised definition of PIE on the auditing standards, which includes:

- Achieving, to the greatest extent possible, convergence between the definitions and key concepts underlying the definitions used in the PIE provisions of the IESBA Code and the International Standards on Quality Management ("ISQMs") and International Standards on Auditing ("ISAs") to maintain their interoperability; and
- Amending the applicability of the existing differential requirements for listed entities in the ISQMs and ISAs[11] to meet heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing confidence in audit engagements performed for those entities.

[10] In February 2023, the IESBA issued the final pronouncement, Revisions to the Code Relating to the Definition of Engagement Team and Group Audits. The relevant new provision in Section 405 of the IESBA Code is effective for audits of financial statements and group financial statements for periods beginning on or after 15 December 2023, with early adoption permitted.

[11] IAASB expects to issue the relevant exposure draft in June 2024 and approve it in June 2025.

IV. List of factors on determining the level of public interest in the financial condition of entities

40. The relevant local body should be guided by the overarching objective in paragraph 400.8 of the PIE provisions for defining entities as PIEs in a local context to reflect significant public interest in the financial condition of those entities due to the potential impact of their financial well-being on stakeholders.

41. According to paragraph 400.9 of the PIE provisions, the factors to consider in evaluating the extent of public interest in the financial condition of an entity include:
    - The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.
    - Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
    - Size of the entity.
    - The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
    - Number and nature of stakeholders including investors, customers, creditors and employees.
    - The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

42. It is important to note that, in the IESBA's view, each of the factors on its own may not amount to significant public interest in the financial condition of an entity and that they should not be considered in isolation and any further explanation of these factors is better dealt with through additional non-authoritative guidance material, such as frequently asked questions, as part of the rollout of the approved revisions.

43. Furthermore, the IESBA noted that in accordance with the IESBA Code's drafting conventions, when a list of factors is presented for consideration, the factors are examples of matters for consideration, individually and in combination, when evaluating the matter at hand. Having said that, the IESBA has replaced the phrase "will depend on [the following factors]" in paragraph 400.8 of the extant IESBA Code with "factors to consider in evaluating" in the revised PIE provisions, to help reduce the risk of the factors being considered in isolation. In other words, those factors should be considered in a holistic manner.

V. Mandatory PIE categories and additional PIE categories proposed at the local standard setter level

44. According to paragraph R400.17 of the PIE provisions, the mandatory PIE categories, which are defined broadly by the IESBA at a high level for refinement at the local level, consist of:
    (a) A publicly traded entity;
    (b) An entity one of whose main functions is to take deposits from the public;
    (c) An entity one of whose main functions is to provide insurance to the public; or
    (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.10.

45. The IESBA used the phrase "one of whose main functions" in paragraph R400.17(b) and (c) not only to capture entities that have other main functions such as credit and lending, but also to exclude those entities for which deposit-taking or insurance is not a main function.

46. The IESBA further noted that the reference to "the public" in those two categories should be broadly understood and need not be further explained in the IESBA Code.

47. The new mandatory categories are defined broadly at a high level for refinement at the local level. The local standard-setting body is to refine the definition for the mandatory categories more explicitly to explain what it means in the local context, for example with reference to its local laws and legislations for publicly traded entities, banks and insurers.

48. Due regard should be given to the considerations noted by the IESBA in the basis for conclusions to the PIE provisions:
    - It is not possible to define a list of PIE categories that would not require further local refinements given the reality of contextual differences across jurisdictions.
    - It is ultimately the role of the local bodies to determine which entities should be treated as PIEs whereas the IESBA's role rests more with setting the appropriate additional independence requirements for PIEs, such as those that address the provision of non-assurance services ("NAS"), fees and long association.
    - In respect of the three specific mandatory categories, the IESBA believes the revised definition will create a greater level of uniformity across the globe regarding the types of entities that should be PIEs.

- The IESBA's framework for the PIE definition, which includes an expanded list of factors for consideration by relevant local bodies when determining the level of public interest of an entity, will guide those bodies on how their local PIE definitions should be specified, which will therefore promote global consistency in approach.

Mandatory category 1: Publicly traded entity

49. The first mandatory PIE category of the PIE provision is "publicly traded entity" ("PTE"). It is used to replace "listed entity" in the extant IESBA Code. A PTE is defined as "An entity that issues financial instruments that are transferrable and publicly traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity."

50. Accordingly, entities listed in accordance with the Listing Rules of HKEX would be considered as a PTE, which is in line with the extant Code. No local refinement is proposed to PTE given that:
    - In the extant Code, the definition for "listed entity" has not been refined for local context. As such, no local refinement is proposed to PTE.
    - The definition of listed entity for Hong Kong Standards on Auditing ("HKSAs") and the extant Code is the same, i.e., an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body. The Institute's Auditing and Assurance Standards Committee developed a Frequently Asked Questions for the implementation of HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. Given that the profession has been applying PIE independence requirements for listed entities (including listed debt) as required under the extant Code with no refinement or carve-out since HKSA 701 became effective in December 2017, any refinement or carve-out could be misconstrued as a lowering of the bar on independence requirements for PTEs.

51. The explanations provided by the IESBA in the basis for conclusions to the PIE provisions are also instructive:
    - The phrase "including through listing on a stock exchange" incorporates the concept of a listed entity without the confusion caused by the term "recognized stock exchange" in the extant definition of "listed entity". The phrase is intended to include not only primary stock exchanges but also other exchanges such as second-tier exchanges when used for trading by the public, yet not intended to capture entities whose financial instruments are only traded through privately negotiated agreements.
    - The term "financial instruments" can cover not only "shares, stock or debt" (as currently used in the extant definition of "listed entity") but also other types of instruments such as hybrid securities.
    - The additional phrase "traded through a publicly accessible market mechanism" makes it clear that the trading activities need to be through a facilitated trading platform such as an auction-based exchange or electronic exchange. For instance, a closed-end fund where the shares are publicly traded on a local stock exchange instead of the fund buying back the shares from shareholders is prima facie a PTE. Also, an entity whose financial instruments are traded through an unregulated or over-the counter platform by the public, even with a low volume of trade, is prima facie a PTE. On the other hand, the PTE definition is not intended to capture those entities whose financial instruments are traded through privately negotiated agreements with or without the assistance of a broker.
    - If an entity is trading its financial instruments via a platform that is available to the public, that entity should be scoped in as a PTE irrespective of whether the entity is a private company or public sector entity. For instance, a private company or public sector entity issuing bonds or other debt instruments to be traded on the local stock exchange would be scoped in as a PTE for the purposes of the Code unless otherwise excluded as part of the local refinement of the PTE category.

52. For the avoidance of doubt, there is a difference between the PIE definition in the AFRCO and the revised PIE definition for the purposes of auditors' independence requirements (which is the subject matter of this ED), where the AFRCO explicitly excludes entities with listed debt as PIEs. Furthermore, the purpose of the AFRCO is for regulating PIE auditors whereas Part 4A of the Code sets out the independence requirements when undertaking audit and review engagements.

Mandatory category 2: Deposit-taking entities

53. After in-depth discussions with local regulators and stakeholders, the Ethics Committee has identified the following types of deposit-taking entities that may be pertinent to the identification of PIEs within the Hong Kong context:
    - Authorized Institutions ("AIs") that are licensed by the HKMA;
    - Local branches of foreign banks;
    - Local representative offices; and
    - Credit unions.

AIs that are licensed by the HKMA

54. In Hong Kong, any corporation operating a banking business or a business of taking deposits must obtain a license issued by HKMA.

55. Hong Kong maintains a three-tier system of deposit-taking institutions, comprising licensed banks ("LBs"), restricted licence banks ("RLBs"), and deposit-taking companies ("DTCs"). They are classified according to the amount and term of deposits that can be accepted as well as the nature of the business. They are collectively known as AIs.

56. According to the HKMA:[12]
    - A tiered system is useful for distinguishing banks qualified to accept retail deposits from those that should be restricted in the types of deposits they can take for prudential and depositor protection purposes.
    - The purpose of the minimum deposit size requirement is to differentiate between retail and non-retail deposits.

    Given the tiering mechanism is used to distinguish retail from non-retail businesses and hence the different tiers' exposure to public interest, the Ethics Committee considers it appropriate to address the local refinement by reference to the different tiers of AIs.

[12] HKMA Consultation Paper: Review of the Three-Tier Banking System (26 June 2023)

57. The following table[13] sets out the number of AIs and the size of their customer deposits as of 30 June 2023:

As of 30 June 2023	**LBs**	**RLBs**	**DTCs**
No. of AIs			
Incorporated in HK	31	10	12
Incorporated outside HK	121	5	0
Total No. of AIs	**152**	**15**	**12**
Aggregate customer deposits (HK$ million)	**15,439,620**	**20,082**	**4,886**

58. The capital requirements and deposit-taking activities among the three tiers of AIs are outlined below:[14]

	LBs	**RLBs**	**DTCs**
Deposit-taking activities	• May pay or collect cheques drawn by or paid in by customers; • May operate current and savings accounts; and • May accept deposits of any size and maturity from the public	• May take deposits of any maturity of HK$500,000 or above	• May take deposits of HK$100,000 or above with an original term of maturity of at least three months
Minimum capital requirement	HK$300 million	HK$100 million	HK$25 million

59. Based on comments received from key stakeholders such as the HKMA and practitioners specializing in the banking industry, and having considered factors in

[13] HKMA Monthly Statistical Bulletin

[14] HKMA Consultation Paper: Review of the Three-Tier Banking System (26 June 2023)

paragraph 400.9 of the PIE provisions, the Ethics Committee considered the following criteria in evaluating the level of public interest of banking entities:

- A size-based approach based on the number of depositors and/or total deposit amount of an AI;
- Nature of an AI's business, e.g., the extent which an AI participates in retail banking;
- Types of investors and customers of an AI; and
- The potential systemic impact on other sectors and the economy in case of the AI's financial failure.

60. The Ethics Committee considered that using a size-based approach to determine which AIs may constitute a PIE may result in unintended consequences for the following reasons:
    - It is difficult to determine an appropriate threshold in terms of the number of depositors and/or total deposit amount for the purposes of the PIE determination.
    - Given the constantly changing nature of market dynamics, any established threshold will necessitate continuous evaluation and could be subject to periodic modifications. This can lead to confusion in practical implementation.
    - A size test may create different levels of independence requirements within the same tier of AIs, i.e., auditors of AIs with more depositors and/or total deposit amount will be subject to more stringent independence requirements, while auditors of other AIs in the same tier not meeting the threshold will not be subject to such requirement. This may create confusion and contradict the three-tier system of the HKMA.
    - If a size test is applied to AIs, it is questionable whether the same size test, or different size tests, should be applied to entities of other categories identified in paragraphs R400.17 and 400.18 A2 for the purposes of PIE determination.

61. Regarding the nature of business and the types of customers and investors, the Ethics Committee noted that the public interest element for RLBs and DTCs is relatively limited compared with LBs for the following reasons:
    - RLBs and DTCs can only take deposits over HK$500,000 or HK$100,000 respectively, rather than of any size in contrast with LBs.
    - RLBs principally engage in merchant banking and capital market activities as opposed to providing retail banking services to the general public.

- As of June 2023, the DTC sector only had 12 institutions. Some of them focus more on securities trading businesses which are funded by non-deposit-taking activities instead of engaging in traditional deposit-taking activities to support lending.[15]

The deposit threshold requirements and business nature of RLBs and DTCs would arguably limit their customers to those with more professional financial knowledge and stronger financial capabilities. This inherently limits the number of stakeholders who are exposed to RLBs and DTCs, and consequently, reduces the level of public interest in these entities.

62. On the contrary, LBs may offer a full range of banking services to and accept deposits of any size and maturity from the public. As the major target customers of some LBs include retail depositors, LBs have significant public interest and are subject to a higher capital requirement (a minimum of HK$300 million).

63. Consideration should also be given to whether an AI is so deeply integrated into the financial system or economy that its failure would result in disastrous consequences to the public. The Ethics Committee considered that the risk of this happening for RLBs and DTCs is low as evidenced by the following factors:
    - The scope of their customer base is limited due to various restrictions imposed on them, and they do not offer mainstream banking services or products to the general public.
    - The RBLs' and DTCs' market share in the banking sector has dropped significantly in the past three decades, as illustrated below:[14]

	As of 31 December 1993		**As of 31 March 2023**	
Market share %	**RLBs**	**DTCs**	**RLBs**	**DTCs**
Total assets	3.3%	2.5%	0.67%	0.07%
Customer deposits	1.7%	1.0%	0.14%	0.03%
Loans & advances	2.8%	2.2%	0.53%	0.10%

[15] HKMA Consultation Paper: Review of the Three-Tier Banking System (26 June 2023)

64. Given the reference to *deposit-taking* entities in the IESBA's revised mandatory PIE category, it is logical to focus the assessment on the RLBs' and DTCs' market share of customer deposits, which amounts to only 0.17% of all customer deposits on a combined basis. It is clear at a glance that RLBs and DTCs are insignificant in terms of the whole banking system with arguably negligible systemic impact.

65. In June 2023, the HKMA issued a public consultation[16] on its proposals to simplify the three-tier banking system into two tiers. The main proposals are to:
    - Maintain LBs as the "first-tier institutions" and merge DTCs into the second-tier institutions, which will continue to be called RLBs;
    - Keep the requirements on the "second-tier institutions" unchanged, including the minimum capital requirement (HK$100 million); the minimum deposit size requirement (HK$500,000); and no restriction on deposit maturity; and
    - Provide a transition period of 5 years for existing DTCs to upgrade to the "second-tier institutions" (i.e., RLBs) or LBs.

66. Prima facie, the HKMA's proposed changes do not have any bearing on the Ethics Committee's proposals to classify LBs as PIE in Part 4A of the Code.

67. The Ethics Committee will consider the HKMA's final decision (if available) and the corresponding impact to the PIE classification in Part 4A of the Code when finalizing the final provisions.

Additional notes for local branches of foreign banks

68. An overseas applicant seeking a licence of a LB or RLB presence in Hong Kong can enter in the form of a branch or a locally incorporated subsidiary. As for DTCs, since 1977, it has been the HKMA's practice to grant DTC registrations in respect of locally incorporated subsidiaries only.[17]

69. For international banks proposing to establish a branch in Hong Kong, the HKMA assesses the bank as a whole against the relevant criteria, as opposed to making an assessment on the Hong Kong branch alone.

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[16] HKMA Consultation Paper: Review of the Three-Tier Banking System (26 June 2023)

[17] The Authorization Regime, HKMA (March 2022)

70. As part of the HKMA's assessment of whether an overseas incorporated legal entity meets the relevant criteria for licence issuance, it places significant reliance on the views of the overseas entity's home banking regulator as well as the robustness of the depositor protection mechanisms in the entity's home jurisdiction. These factors can potentially influence the HKMA's views as to whether the Hong Kong banking business should be conducted through a subsidiary or branch.

71. In Hong Kong, only locally incorporated banks are subject to the statutory audit requirements under the Companies Ordinance (Cap.622) ("CO"). Currently, branches of overseas incorporated banks are not subject to any statutory audit requirements in Hong Kong. They are generally not subject to audit unless requested by, for example, the group auditor for group reporting purposes or by other entities (e.g., regulators or investors) for specified purposes.

72. As the PIE definition applies to Part 4A of the Code only (i.e., applicable to only *audits and reviews* of historical financial information), and such branches are not subject to a statutory audit, Part 4A of the Code is irrelevant to such branches from a statutory perspective. When an audit of a branch is requested for group reporting or other purposes, the resulting audit report will be intended for a specified purpose and will generally not be made available to the public. Since there is no public interest in such an audit report, it is submitted that the branch should not be treated as a PIE in this context at the local standard setter level.

73. In summary, the Part 4A requirements are either:
    - Not relevant to branches of overseas incorporated banks as they are not subject to any statutory audit requirements in Hong Kong; or
    - If they are relevant (e.g., in case an audit is conducted for such branches for specified purposes), such branches should not be treated as a PIE at the standard setter perspective. Rather, firms could treat them as PIEs if they wish to do so or if they are requested by the group auditor or other parties to do so.

74. Some accounting firms may provide assurance services to branches of international banks in Hong Kong for prudential reporting purposes. As explained above, for an engagement that is not an audit or a review engagement, the practitioner would generally apply the independence requirements in Part 4B, Chapter A of the Code and

not Part 4A of the Code. This means that the revised PIE definition which is the subject matter of this ED has no impact on such engagements.

75. If the prudential regulator imposes independence requirements for auditors that differ from or go beyond those set out in the Code, the auditors need to be aware of those differences and comply with the more stringent independence requirements as set out in the Code and the requirements set by the regulators.

Local representative offices

76. Certain overseas banks may establish local representative offices in Hong Kong. These offices typically conduct activities such as marketing the bank's services in Hong Kong and acting as a communication channel between local customers and the overseas bank. However, these representative offices are not allowed to engage in any banking business and their role is confined mainly to the liaison work with their Hong Kong customers. Since these representative offices do not take any deposits from the public, they do not fall within the scope of paragraph R400.17(b) of the PIE provisions.

Credit unions

77. The IESBA noted that whilst some jurisdictions might wish to include their entire population of credit unions under paragraph R400.17(b) of the PIE provisions, others (such as many EU member states) have determined otherwise. To ensure global operability of the PIE definition, the IESBA believes the IESBA Code should not prescribe any categories that are highly dependent on local contexts.

78. In Hong Kong, credit unions are established under the Credit Union Ordinance (Cap. 119) ("CUO") to receive savings of their members either as payment on shares or as deposits, and make loans to their members, exclusively for provident or productive purposes. At the time of this memorandum, the CUO does not require a credit union to appoint an external auditor to carry out an audit of their financial statements. Credit unions, however, may prepare audited financial statements on a voluntary basis or according to the provisions set out in their governing documents.

79. Unlike deposit-taking institutions mentioned above, credit unions are regulated by the Agriculture, Fisheries and Conservation Department ("AFCD") of the Government of the Hong Kong Special Administrative Region ("HKSAR Government").

80. According to section 15 of the CUO, the membership of a credit union shall be limited to persons having a common bond of occupation, employment, association, or residence within a defined neighbourhood, community, or rural or urban area. A member who ceases to have the common bond may retain the membership, but may not obtain the grant of any loan exceeding the value of his/her shares in the credit union. From this perspective, credit unions are not primarily designed to cater for the needs of the general public. This is further supported by their low level of penetration within the Hong Kong population discussed in paragraph 81 below.

81. According to the latest statistics of the AFCD, as of March 2021[18], there were 44 credit unions in Hong Kong with a combined reserve fund of approximately HK$865 million. Out of the 44 credit unions in Hong Kong, 11 of them are formed by civil servants of the HKSAR Government. Collectively[19], these 11 unions have more than 61,000 members and a combined reserve fund of HK$566 million. The aggregate number of members of all credit unions registered with the AFCD is approximately 95,000, which represents around 1% of the population in Hong Kong.[20]

82. The Ethics Committee noted that the members and reserve funds of credit union are significantly concentrated within one sector, i.e., those formed by the civil servants. The remaining credit unions have approximately 34,000 members in total which is less than 0.005% of the total Hong Kong population.

83. Given that any potential financial risk is concentrated in the 11 credit unions that are formed by the civil servants and the remaining credit unions affect a clearly insignificant portion of the general public, and that the membership of credit unions is highly restricted, the Ethics Committee is of the view that it is not meaningful to determine the PIE status of credit unions at the standard setter level taking proportionality into account. Instead, it would be more appropriate for auditors to determine which credit union should be

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[18] This is the latest report available at the time of this memorandum. See Appendix 5, Departmental Annual Report 2020-2021, AFCD of the HKSAR Government.

[19] At the time of this memorandum, no information is available on an individual credit union basis.

[20] Based on the provisional estimate of the Hong Kong population at mid-year 2023, which was 7,498,100, published by the Census and Statistics Department of the HKSAR Government ("C&SD").

treated as a PIE at the firm level based on the factors in paragraphs 400.9 and 400.19 A1 of the PIE provisions.

Proposed local refinement

84. In light of the analysis above, the Ethics Committee noted that the financial condition of LBs, which accept deposits from a significant portion of the general public in Hong Kong, would be of significant public interest. Any financial failure of such AIs would shake the confidence of the Hong Kong financial system and would impose a serious impact on society.

85. In contrast, the customer base and market share of RLBs and DTCs are relatively limited, resulting in a comparatively smaller public interest impact to the economy and the general public. The same is observed for credit unions. Note that local branches of foreign banks and local representative offices do not fall within the scope of the revised PIE definition as explained in paragraphs 68 to 76 above.

86. Accordingly, the Ethics Committee proposes that LBs as defined under the BO are PIEs in Part 4A of the Code, except where there is no statutory requirement for an audit to be performed on LBs (e.g., local branches of foreign banks – see paragraphs 68 to 75 above).

Mandatory category 3: Insurers

87. In Hong Kong, any person or entity carrying on insurance business must be approved by the IA as an authorized insurer. The IO sets out the requirements for the authorization/ designation/ licensing, ongoing compliance and reporting obligations of insurers, designated insurance holding companies and insurance intermediaries.

88. Broadly speaking, authorized insurers in Hong Kong operate within one of the following categories:
    - Direct insurers (or insurers);
    - Professional reinsurers; and
    - Captive insurers.

Insurers and professional reinsurers

89. An insurer, other than professional reinsurer, is authorized to carry on either general business or long term business, but not both. An insurer wishing to carry on general and long term business in Hong Kong will need to form two separate companies.

90. Professional reinsurers are also governed by the requirements in the IO. Despite the fact that professional reinsurers generally provide insurance to other general/ long term insurance companies (i.e., cedants/ ceding companies) rather than to the public directly, the Ethics Committee believed that they should be considered together with general/ long term insurance companies due to the following reasons:
    - An authorized insurer is required by the IO[21] to arrange adequate reinsurance protection. When insurance companies diversify their business risks through reinsurance arrangement, they may enter into transactions with reinsurers worldwide, depending on their risk mitigation strategies. A reinsurer may further cede the reinsurance business it writes, and the business is accepted by another reinsurance company or insurance company (such arrangement is known as retrocession). Reinsurers are effectively fulfilling the contractual obligations of the portion of insurance contract ceded by other general/ long term insurance companies and they form an integral part of risk transfers within the insurance industry.
    - Building upon the previous point, the business and risk profile of reinsurers in Hong Kong and thus their exposure to other Hong Kong insurance companies are dynamic and constantly evolving. It is difficult to reach objective criteria to measure the extent of the financial condition of a reinsurer that has significant public interest at a particular point in time.

91. Under the IO and CO, locally incorporated insurers are required to submit statutory returns and audited financial statements to the IA and the Companies Registry respectively. If a firm performs both an assurance engagement on the statutory returns and an audit engagement on the financial statements for the same insurer, it should comply with the independence requirements set out in Part 4B and Part 4A in Chapter A of the Code respectively.

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[21] Under section 8(3)(c) of the IO, an authorized insurer shall arrange adequate reinsurance protection unless there are justifications not to do so. An insurer should arrange reinsurance protection appropriate to its overall risk profile, having regard to, amongst other things, the security of reinsurers, the need to avoid concentration of reinsurers, and the need to obtain collateral securities, if appropriate.

Additional notes for local branches of foreign insurers

92. Branches of foreign insurers are licensed by the IA to conduct insurance business in or from Hong Kong if they satisfy the relevant authorization requirements and if such a foreign insurer is:
    (a) A company incorporated in a country where there is comprehensive company law and insurance law;
    (b) An insurer under effective supervision by the relevant authorities of its home country; and
    (c) A well-established insurer with international experience and of undoubted financial standing.

93. On 19 April 2023, the Insurance (Amendment) Bill 2023 had its first reading in the Legislative Council. It provides the legal framework for the implementation of the new Hong Kong Risk Based Capital ("RBC") regime for the insurance industry.

94. The PIE provisions will be effective for audits and reviews of financial statements for periods beginning on or after 15 December 2024. By that time, the new RBC regime will have been implemented.

95. Subject to the completion of the legislative process, in the event that there is no statutory audit requirement on financial statements of branches of overseas insurers under the new RBC regime (as in the extant regime), branches would only be required to submit statutory returns to the IA for which an assurance engagement will be performed by auditors. In that scenario, where no audit engagements are conducted, the independence requirements under Part 4A of the Code should generally not apply to branches.

96. For the audit of branches' financial statements, if the parent company of the branch is classified as a PIE, it will be up to the auditor of the parent company to inform the local auditor of the branch to comply with the independence requirements stipulated by the auditor of the holding or parent company.

Captive insurer

97. Currently, there are four captive insurers authorized in Hong Kong. Given that a captive insurer is an insurance company set up by its parent company with the primary purpose of insuring and reinsuring the risks of the companies in the group to which the captive insurer belongs, captive insurers arguably do not have public interest. Accordingly, the Ethics Committee considered it more appropriate for auditors to determine which captive insurer should be treated as a PIE at the firm level based on the factors in paragraphs 400.9 and 400.19A1 of the PIE provisions.

Proposed local refinement

98. In light of the above analysis, the Ethics Committee proposes that authorized insurers as defined under the IO are PIEs for the purposes of Part 4A of the Code except for:
    - Captive insurers; and
    - Insurers where there is no statutory requirement for an audit to be performed.

Additional local PIE categories

99. Post-employment benefits ("PEBs") and collective investment vehicles ("CIVs") are not included in the mandatory list of PIE categories. The key question the IESBA sought to resolve was whether:
    - PEBs and CIVs should be scoped in under the top-down mandatory list in the IESBA Code, or
    - Whether local bodies should take them up, where appropriate, in their bottom-up list (paragraph 400.18 A2 of the PIE provisions).

100. In reaching its final position, the IESBA considered a number of key factors, including:
    - The key differences in nature between PEBs and CIVs as compared with deposit-taking institutions and insurers.
    - The public interest benefits of including only the funds themselves without fully considering the independence implications with respect to the asset/fund managers, advisors, trustees and others involved in the management and governance of the funds from a related entity perspective or other perspectives.
    - How best to balance the different risks within the IESBA's framework for defining a PIE.

- The need for and scope of future research.
- Support from stakeholders for removing PEBs and CIVs from the mandatory list.

101. The IESBA acknowledged that PEBs and CIVs exhibit a high degree of diversity in terms of legal structures, management and governance forms as well as regulatory oversight. They are not as standardized as the banking and insurance industries. The inclusion of these categories in the list of mandatory PIE categories in the IESBA Code may inadvertently impose a disproportionate burden on local regulators and national standard setters to determine what should be scoped in or out.

102. The IESBA nevertheless agreed to conduct a holistic review of PEBs and CIVs on their arrangements and relationship with trustees, managers and advisors. The IESBA acknowledged that a better understanding of these arrangements would be important to ensure that the independence provisions and the application of the "related entity" definition in the IESBA Code remain fit for purpose. Given the complexity of these arrangements or structures and the degree of variation across jurisdictions, the IESBA will proceed cautiously before determining whether there is a need to revise the IESBA Code. As a first step, the IESBA will conduct the necessary research and outreach with key stakeholders in 2024 to fully understand the issues. Following this, the IESBA plans to issue an exposure draft based on the findings in 2025, and subsequently releases the final pronouncement in 2026.[22]

103. CIVs in the PIE provisions carry a similar meaning to collective investment schemes ("CIS") in Hong Kong. The terms CIV and CIS have therefore been used interchangeably in this ED.

104. CISs are regulated by the SFC. A CIS is broadly defined in Schedule 1 to the SFO to mean investment products of a collective nature. Mutual funds, unit trusts and MPF schemes are examples of CIS in Hong Kong. Publicly traded CISs (e.g., ETFs, REITs) are already considered as a PIE under the definition of PTE.

105. The discussion below is categorized into pension funds (paragraphs 106 to 128) and non-pension funds (paragraphs 129 to 144) in Hong Kong.

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[22] IESBA's Proposed IESBA Strategy and Work Plan, 2024–2027

Pension funds: MPF schemes and ORSO schemes

106. In Hong Kong, there is not much diversity in terms of the legal structure, management and governance forms as well as regulatory oversight as regards MPF schemes and ORSO schemes, which are both regulated by the MPFA.

107. MPF schemes and ORSO schemes are both retirement protection schemes set up for employees in Hong Kong, but their operations are different.

108. The MPF schemes represent mandatory, privately-managed and fully-funded contribution schemes. An MPF scheme may consist of a fund or more than one constituent funds. Authorization of an MPF scheme will cover all the constituent funds within it. Depending on the market performance of the underlying assets of each MPF constituent fund, the fund size is variable on a daily basis with great diversity among funds. For example, as of 31 July 2023, of the 419 constituent funds under all MPF schemes, the largest fund, the 10th largest fund, the 10th smallest fund and the smallest fund had a net asset value ("NAV") of approximately HK$44 billion, HK$22 billion, HK$13 million and HK$5 million respectively.[23]

109. The ORSO Ordinance came into force in October 1993. Its objective is to establish a registration system for ORSO schemes voluntarily established by employers. The MPFA assumed the role of the Registrar of ORSO schemes and is responsible for administering them since January 2000.

110. Since the launch of the MPF system in 2000, the MPFA has exempted a number of ORSO schemes that meet certain criteria from following the MPF regulations. Accordingly, there are two types of ORSO schemes:
    - ORSO registered schemes are subject to various funding, investment, auditing and disclosure of information requirements.
    - ORSO exempted schemes are exempted from the auditing and investment requirements, but are required to provide specified information to the MPFA annually, notify the MPFA of certain changes and settle periodic fees to the MPFA.[24]

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[23] According to MPFA's MPF Fund Platform

[24] According to the ORSO schemes statistics published by the MPFA, there were 429 ORSO exempted schemes as at 31 March 2023.

111. As ORSO exempted schemes have no audit requirements, they are out of the scope of the revised PIE definition and are not considered further by the Ethics Committee.

112. Drawing from the information gathered, and having considered the factors in paragraph 400.9 of the PIE provisions, the Ethics Committee considered the following criteria in evaluating the level of public interest of MPF schemes and ORSO schemes:
- Perspectives from the relevant regulatory authority, i.e., the MPFA;
- The number of scheme members and NAV of schemes in the market; and
- Whether a scheme is available to the general public for subscription.

113. The following table[25] compares the key statistics of MPF schemes and ORSO schemes:

As of March 2023	MPF schemes	ORSO registered schemes
Number of schemes	27	2,973
Total number of scheme members	4,694,000	277,819
Aggregate NAV of all schemes (HK$' million)	1,109,031	343,882

114. The Ethics Committee understood from the MPFA and share their view that MPF scheme members would generally have a heightened expectation regarding auditors' independence in terms of the audit of the financial statements of MPF schemes, given these schemes have amassed the retirement savings of around 78%[26] of the working population, and around 63%[27] of the total population in Hong Kong. In contrast to MPF schemes, only around 7% of Hong Kong's working population, and 4% of Hong Kong's total population, are members of ORSO schemes.

115. The Ethics Committee also assessed the potential increase in cost for auditors and MPF schemes if they were classified as PIEs. The Ethics Committee noted the likely pass-through of those costs as higher administrative fees for the MPF schemes thus lowering investment returns to MPF scheme members, which has been an issue of much consternation amongst the public in recent years. The Ethics Committee acknowledged

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[25] MPFA's Annual Report 2022-2023.

[26] Based on the total employment population of 3,708,000 for the period from May to July 2023 published by the C&SD.

[27] Based on the provisional estimate of the Hong Kong population at mid-year 2023 which was of 7,498,100 published by the C&SD.

this as a valid concern (which also exists for SFC-authorized funds) especially because the working population are *required* by law to contribute to MPF schemes and MPF scheme members should arguably be subject to more investment return protection given the financial condition of many of the MPF scheme members may not be comparable to that of the individuals investing in SFC-authorized funds, the decision of which is voluntary.

116. In evaluating the extent of public interest in the financial condition of an entity, one of the factors to consider in paragraph 400.9 of the PIE provisions is the nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.

117. While the meaning of "public" in paragraph 400.9 is not defined in the Code, it is defined by the Cambridge dictionary as relating to or involving people in general, rather than limited to a particular group of people.

118. The Ethics Committee noted that with the significant membership size of MPF schemes (around 78% of the working population and 63% of the total population in Hong Kong), one could argue that members of all MPF schemes, in aggregate, are substantially the "public" in Hong Kong. Once enrolled to an MPF scheme, a member is eligible to transfer his accrued benefits to another MPF scheme of his choice, albeit with certain restrictions on the transfer frequency (i.e., once a year) and transfer amount (i.e., only the employee's portion of mandatory contributions and investment returns could be transferred).

119. In this context, MPF schemes can be regarded as being available "for public subscription" among the majority of the Hong Kong population, thus having a significant public interest element because:

- The substantial membership size of MPF schemes over the years resembles the "public" in Hong Kong (and noting an increasing trend):

As of	June 2020	June 2021	June 2022	June 2023
Total number of MPF scheme members[28]	4,459,000	4,543,000	4,573,000	4,694,000
% of total HK population[29]	60%	61%	62%	63%

- More than 60% of the Hong Kong population (being individuals who are members of an MPF scheme) can transfer their accumulated investments from one MPF scheme to another MPF scheme of his choice, essentially making the pool of all MPF schemes "open for public subscription" among the 4.7 million working population in Hong Kong.

120. On the contrary, ORSO schemes are set up by employers for providing benefits to their employees and they cannot be marketed to members of the public for investment or enrolment. Investment choices of ORSO schemes are specified by the employer and are subject to the governing rules of individual schemes. ORSO members cannot transfer their accrued benefits to other ORSO schemes unlike members of MPF schemes. ORSO schemes are therefore not available for "public subscription" as each ORSO scheme's members are ring-fenced to the employees of companies that have enrolled in that scheme. This coupled with the low percentage of the Hong Kong population that has invested in ORSO schemes as noted in paragraph 114 (only 4% of the total Hong Kong population), the extent of public interest of ORSO schemes is arguably limited.

[28] MPFA's MPF Schemes Statistical Digest

[29] Based on the mid-year Hong Kong population from 2020 to 2023 published by the C&SD.

121. The Ethics Committee also understood from the MPFA and share their view that taking proportionality into account, the significantly smaller asset size (the NAV of all ORSO schemes is only 31% of that of the MPF schemes per the table in paragraph 113) and the low penetration rate (4% of the total Hong Kong population) might not warrant the imposition of enhanced auditors' independence requirements in the audits of ORSO schemes. Furthermore, as noted in paragraph 113 above, there were only 27 MPF schemes as of March 2023, while there were close to 3,000 ORSO registered schemes subject to auditing requirements. The sheer number of ORSO schemes can be attributable to the requirement that each ORSO scheme must only cover one relevant employer, except for a group ORSO scheme that may cover multiple companies within a corporate group.[30] Consequently, number of members and NAV of each ORSO scheme is arguably relatively modest. Any tightened auditors' independence requirements to the audits of ORSO schemes might impose a disproportionate burden to the ORSO scheme operators and auditors from a cost and operational feasibility perspective (e.g. unable to meet auditor rotation requirements).

122. On the other hand, the AFRC was of the view that, similar to deposit-taking institutions, all retirement schemes in Hong Kong, both MPF schemes and ORSO schemes, accept funds as agents. Any failure would have a severe impact on the individuals concerned and would undermine public confidence. The AFRC considered that all retirement schemes including ORSO schemes should be defined as PIEs in view of the significant public interest in their financial condition.

123. Regarding the classification of ORSO schemes as PIE, the Ethics Committee explored the divergent views of the MPFA and the AFRC. To address this, the Ethics Committee considered a size-based approach to determine whether an ORSO scheme should be a PIE. With reference to the MPFA's statistics, the Ethics Committee noted that between 2020 and 2023, approximately 8% to 9% of all ORSO schemes (equating to 240 to 264 ORSO schemes) had assets over HK$100m. Collectively, their aggregate assets held approximately 90% of the total assets among all ORSO schemes:

[30] MPFA's A Guide to the Occupational Retirement Schemes Ordinance (January 2021)

As of [31]	ORSO schemes > HK$100m		% of ORSO schemes > HK$100m to all ORSO schemes	
	No. of ORSO schemes	Total asset size	No. of ORSO schemes	Total asset size
30-Jun-2020	260	294,813	8%	89%
31-Dec-2020	263	296,840	8%	89%
30-Jun-2021	259	291,137	8%	89%
31-Dec-2021	264	328,276	8%	90%
30-Jun-2022	257	329,380	8%	91%
31-Dec-2022	253	315,381	9%	90%
30-Jun-2023	240	286,276	8%	90%

124. Considering the nature of ORSO schemes, their unavailability to the general public (paragraph 120), and taking into account the disproportional high number of ORSO schemes compared to the asset size of each scheme (only 8% to 9% of all ORSO schemes had assets over HK$100 million) and the low population penetration rate (paragraph 114), the Ethics Committee considered that the size of ORSO schemes would be a particularly relevant factor in determining their level of public interest. In this regard, the Ethics Committee observed that certain jurisdictions utilize size criteria to determine whether their pension schemes are PIE within a local context:

- According to the Ethical Standard developed by the Financial Reporting Council of the United Kingdom ("FRC UK"), the definition of Other Entities of Public Interest (i.e., An entity which does not meet the definition of a PIE but nevertheless is of significant public interest to stakeholders) includes private sector pension schemes with more than 10,000 members and more than £1 billion of assets, by reference to the most recent set of audited financial statements.[32] The FRC UK applied a size threshold as part of the definition of Other Entities of Public Interest, albeit that the additional independence restrictions only apply to the provision of non-audit services rather than the wider PIE provisions.[33]

[31] MPFA's ORSO Scheme Statistics

[32] Financial Reporting Council (UK) Glossary of Terms – Ethics and Auditing (December 2019)

[33] The Institute of Chartered Accountants in England and Wales' comment letter (April 2021) to the IESBA's *Proposed Revisions to the Definitions of Listed Entity and PIE in the Code*

- The Dutch legislator designated pension funds as PIE based on their size, with a threshold of EUR 10 billion of managed assets.[34]

125. As illustrated in paragraph 123, it is evident that 90% of the assets among all ORSO schemes were concentrated in those with asset size over HK$100 million. Although these schemes constituted only around 10% of the total number of ORSO schemes, they notably hold the majority of "public interest" of ORSO schemes in Hong Kong. Consequently, the Ethics Committee recommended that ORSO schemes with total asset size over HK$100 million by reference to the most recent set of audited financial statements are PIE. If such audited financial statements are not available, firms should make the determination based on the most recent available information which indicates the asset size of the scheme. Given the statutory audit requirement in the ORSO Ordinance,[35] the "most recent set of audited financial statements" of an ORSO scheme in a specific audit year (e.g., an audit engagement for the year ending on 31 December 2023) would be, theoretically, the financial statements prepared for the preceding year-end (i.e., the audited financial statements for the year ended 31 December 2022). The HK$100 million size test is with reference to the most recent set of audited financial statements, i.e. when an entity ceases to meet the HK$100 million size test with reference to the most recent set of audited financial statements, then the independence requirements applicable for a PIE audit engagement are no longer applicable for the audit of the next financial year (see example in table below).

For a new ORSO scheme, the size test will not be applicable in the audit of the first year's financial statements, but the auditor may voluntarily determine whether or not it should be defined as a PIE if the unaudited total assets meets the HK$100 million size test (see example in table below).

[34] The Royal Netherlands Institute of Chartered Accountants' comment letter (May 2021) to the IESBA's *Proposed Revisions to the Definitions of Listed Entity and PIE in the Code*

[35] Section 20 of the ORSO Ordinance requires the administrator of a scheme to submit the financial statements of the scheme to an auditor annually, for the purpose of independent audit. With few exceptions (see section 20(5) of the ORSO Ordinance), all ORSO schemes, regardless of size or type, must be audited. A copy of the audited financial statements of the scheme is required to be submitted by the administrator to the MPFA within 6 months after the end of the scheme's financial period. The first audit would be required in respect of the ORSO scheme's first financial period ending after the scheme is registered.

Financial year ending	Total Assets in the audited financial statements	Apply independence requirements for PIE?
31 December 2022 (first year audit)	HK$150 million	No – the auditor may voluntarily determine
31 December 2023	HK$90 million	Yes
31 December 2024	HK$120 million	No

126. The Ethics Committee observed that the number of ORSO schemes with asset size over HK$100 million remained consistent from 2020 to 2023, which ranged between 240 and 264 (paragraph 123). It is worth noting that the asset size of pension funds is subject to market fluctuations, which means that the size criterion might cause an auditor to apply different independence standards from year to year (depending on whether the pension fund is classified as a PIE in a particular year based on the proposed size criterion). However, the Ethic Committee considered this a balanced approach to account for the differing perspectives among stakeholders and the fact that a substantial portion of assets, and thus the public interest of ORSO schemes, is concentrated in schemes with asset size exceeding HK$100 million.

127. The Ethics Committee further noted that classifying ***all*** ORSO schemes as PIE would not only raise concerns related to cost and operational feasibility (paragraph 121), but could also potentially impact audit quality. As a PIE designation necessitates the mandatory rotation of relevant engagement partners/engagement quality reviewers ("EQRs") or rotation between firms, caution should be exercised due to the specialized skills required to fulfil these roles in auditing ORSO schemes. There is a risk that non-specialist engagement partners/EQRs would need to undertake the work if all ORSO schemes are classified as PIEs which could have an undesirable impact on audit quality. Consequently, the Ethics Committee concluded that applying the size criteria to target those ORSO schemes with a substantive public interest as PIE offers a pragmatic approach to address this concern.

Proposed local refinement: Pension funds

128. Having considered the views presented above, the Ethics Committee proposes that (i) all MPF schemes; and (ii) ORSO schemes with total assets exceeding HK$100 million by reference to the most recent set of audited financial statements are PIEs for the purposes of Part 4A of the Code.

Authorized funds (non-pension)

129. Funds that are offered to the public in Hong Kong are subject to the prior authorization of the SFC, unless one of the exemptions under section 13 of the SFO applies. For example, funds that exclusively target professional investors do not require SFC authorization. The SFC derives its fund authorization powers from section 104 of the SFO[36].

130. Under the SFO, the SFC is the statutory regulator for investment products[37] being offered in Hong Kong. The SFC also enters into mutual recognition of funds arrangements with the Mainland and overseas financial regulators to enable eligible funds authorized by or registered with financial regulators in those jurisdictions to enjoy a streamlined process for the purpose of authorization for offering to the public in Hong Kong and vice versa.

131. The following information is relevant to the CIV industry in Hong Kong:
    - The landscape of the local investment markets is gradually changing, with new investment products being introduced to the market from time to time. These new products exhibit increased sophistication and complexity.
    - To further develop Hong Kong as a full-service international asset management centre and a preferred fund domicile, the SFC may propose enhancements to existing investment regulations or introduce new types or regime of funds (e.g., leveraged and inverse products). Furthermore, the Financial Secretary of the HKSAR Government is empowered under the SFO to prescribe by notice in the Gazette that certain products are, or are not, to be regarded as a CIS.
    - As at 31 December 2022, HK$6,224 billion (28%) of assets in the asset management and fund advisory business were attributable to non-professional investors which include retail investors[38].
    - Trading of CIVs through representatives of financial institutions or their online trading platforms is becoming increasingly common and will be more readily

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[36] SFC's Frequently Asked Questions on Code on Unit Trusts and Mutual Funds (November 2022)

[37] They are broadly divided into unlisted products (e.g., unit trusts and mutual funds, investment-linked assurance schemes, structured investment products), listed products (e.g., exchange-traded funds, leveraged and inverse products, real estate investment trusts), and listed and unlisted shares and debentures.

[38] Chart 4B of Asset and Wealth Management Activities Survey 2022 published by the SFC (August 2023)

accessible to the general public. It is anticipated that the fast-paced development of technology will boost the popularity of CIVs and increase the participation of retail investors. According to a joint survey by the SFC and HKMA[39], during 2021, HK$268 billion of CIVs were distributed online, representing 91% of the total online sales of non-exchange traded investment products by licensed corporations and registered institutions.

- There is no publicly available information to distinguish which CIVs are sold to retail investors and which are sold only to institutional/professional investors.
- There are more than 2,100 unit trusts and mutual funds authorized by the SFC as of August 2023, although not all are issued in Hong Kong.[40] Generally, whether a SFC-authorized fund is audited by an auditor registered with the AFRC is dependent on the specific jurisdictional requirement applicable to the fund. At the time of this memorandum, the Institute does not have readily available information to determine the extent that SFC-authorized funds are audited by auditors registered with the AFRC.

132. The Ethics Committee understood that the SFC has commented that SFC-authorized funds are similar to PTEs from a public interest perspective insofar as they are available for public offerings.

133. It is indisputable that there is a significant public interest in the financial condition of the SFC-authorized funds as indicated by the ease with which the public can invest in them, the substantial amount of assets under management by such funds (HK$6 trillion attributable to non-professional investors per paragraph 131) and the large number of retail investors (although the number is not publicly available, this can be surmised from the preceding factors and the active nature of the Hong Kong capital market).

134. Meanwhile, the AFRC considered that CIVs exhibit a significant public interest element, especially those that are authorized by the SFC, as they are eligible for offer to retail investors and can raise funds directly from the public. In the same way that all PTEs are PIEs, the AFRC believes that all SFC-authorized CIVs should be defined as PIEs within the context of Part 4A of the Code. The AFRC also noted that other markets, including

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[39] SFC-HKMA Joint Survey on the Sale of Non-exchange Traded Investment Products 2021 (September 2022)

[40] SFC's List of publicly offered investment products

Australia, Canada, New Zealand and the United States (see their recent public consultation discussed in paragraph 138 below) classify all CIVs as PIEs.

135. While SFC-authorized funds are offered to the public as PTEs do, the Ethics Committee realized that they operate differently from PTEs. Unlike PTEs which have dedicated governance and management for strategical and operational decision-making, funds themselves do not participate in such decision-making processes of their underlying investments. Instead, funds are invested in a diverse range of assets based on the perspectives of managers or trustees who are service providers for the funds. Consequently, funds are considered "passive" because they do not involve in the operations and activities of their investments, nor do they make decisions over the selection and allocation of their investment portfolio.

136. The Ethics Committee also shared the view of the IESBA's PIE Task Force ("Task Force") that although trustees and managers generally have fiduciary duties to their clients for the funds they govern or manage, they are not caught as the CIVs' related entities under the Code.[41] Including CIVs as PIEs would only cover the funds themselves and does not extend to the relevant trustees, managers or advisors. As the range of NAS (and specifically those prohibited for PIEs) that can be provided to these funds is much more limited compared with an operating entity, the newly enhanced NAS and fees standards of the Code will not be as relevant to the audits of funds.[42]

137. With regards to the partner rotation requirements, the Task Force noted that adopting CIVs as PIE without appropriate refinement may place significant stress on the resources of firms, particularly smaller firms. The potential consequences could be greater audit market concentration as smaller firms leave those markets, adverse impacts on audit quality, and increased audit and governance costs for smaller CIVs.[42]

138. On the other hand, the Ethics Committee noted that the top three jurisdictions for open-ended funds in terms of NAV, viz. the United States, Luxembourg and Ireland[43] have yet to define CIVs as PIEs as at April 2023 according to the Database of Jurisdictional

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[41] Paragraph 47 of Definitions of Listed Entity and PIE: Issues and Task Force Proposals (IESBA Meeting November–December 2021)

[42] Paragraph 46 of Definitions of Listed Entity and PIE: Issues and Task Force Proposals (IESBA Meeting November–December 2021)

[43] IOSCO Investment Funds Statistics Report (January 2023)

Definitions published by the IESBA[44]. With regard to the United States, the AICPA has issued an Exposure Draft[45] on a proposed new definition of publicly traded entity and revised definition of public interest entity on 15 June 2023 in which the AICPA proposed to capture investment companies (including mutual funds) that are registered with the SEC pursuant to the Investment Company Act of 1940 as PIEs, except those that are insurance company products.

139. The Ethics Committee recognized that the mixed factors and circumstances outlined above did not give any definitive conclusion regarding the classification of SFC-authorized funds as PIEs. Accordingly, the Ethics Committee decided, at a standard setter level, to defer determining whether SFC-authorized funds should be classified as PIEs within Part 4A of the Code to Phase 2 of the local refinement (paragraph 30) until further information is available, including the conclusive decision of the IESBA following their holistic review (paragraph 102) and the local refinement decisions made by other major jurisdictions for open-ended funds (paragraph 138), which are not yet available at the time of this memorandum.

140. Although the Ethics Committee did not propose to include SFC-authorized funds as PIE in Part 4A of the Code in Phase 1 of the local refinement (as the case may be), auditors should determine which SFC-authorized funds are PIEs at the firm level based on the factors in paragraphs 400.9 and 400.19 A1 of the PIE provisions. Among others, the Ethics Committee considered that firms should consider the following when making their determination:
    - The extent that a fund is offered to retail investors. In general, CIVs offered to retail investors have a higher level of public interest than those offered to institutional and/or professional investors, as the former often involve the pooling of funds from numerous small investors. In addition, retail investors may not possess the same level of knowledge or experience as institutional investors. This distinction makes them more vulnerable to potential risks and fraudulent activities, if any, associated with the CIVs in which they invest.
    - Size of the fund. Size of a CIV is generally determined by its assets under management. The larger the size of a CIV, the greater its potential impact on the economy, financial markets and the level of risk it poses to investors. Size as a factor

[44] IESBA's Database of Jurisdictional Definitions (April 2023)

[45] AICPA Exposure Draft on Proposed new definition of publicly traded entity and revised definition of public interest entity

can be viewed both from the perspective of excluding very small entities that might meet other factors, and from the perspective of considering very large entities that by sheer size alone might qualify to be regarded to have significant public interest.[46]

141. It is important to note that factors discussed in paragraph 140 are not exhaustive. Firms should consider all other relevant factors in determining whether a CIV is a PIE. Any factors should not be considered in isolation.

Proposed local refinement: SFC-authorized funds (non-pension)

142. Having considered the facts presented above, the Ethics Committee proposes deferring the determination of whether SFC-authorized CIVs be defined as PIE within the context of Part 4A of the Code to Phase 2.

Non-authorized funds (non-pension)

143. An unauthorized fund is a fund that has not been authorized by the SFC. Unauthorized funds cannot be marketed to the public but they can be placed privately, offered to professional investors or offered in circumstances where an exemption applies. The onus is on the fund manager to ensure that there are no contravention of any relevant laws.[47]

144. Auditors should determine which unauthorized funds are PIEs at the firm level based on the factors in paragraphs 400.9 and 400.19 A1 of the PIE provisions, as well as those illustrated in paragraph 140 and the principle in paragraph 141 above.

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[46] IESBA's Staff Publication, Supplementary Guidance to Exposure Draft to Aid Local Body Considerations Regarding Adoption and Implementation (March 2021)

[47] Investor and Financial Education Council: Understanding the difference between authorized funds and unauthorized funds

VI. Consultation timetable and effective date of these provisions

145. The following table sets forth the Ethics Committee's indicative timeline for this public consultation. It is intended that these proposed amendments will be effective for audits and reviews of financial statements for periods beginning **on or after 15 December 2024**, in line with the effective date of the IESBA Code revisions. Early adoption of these provisions will be permitted.

27 February to 27 April 2024	Public consultation
July 2024	Issuance of the final pronouncement
15 December 2024	Effective date of the revisions

146. When a non-PIE audit client becomes a PIE audit client as a result of the proposed amendments in this ED, the key applicable independence requirements in the Code are:
   - Partner rotation under the long association provisions in Section 540 of Chapter A of the Code; and
   - Provision of non-assurance services to an audit client in Section 600 of Chapter A of the Code.

   The specific transitional requirements to the above can be found in paragraphs R540.8 and R600.25 in Chapter A of the Code.

147. When an audit client becomes a PIE, it is essential for firms to assess whether additional requirements other than those in the Code are applicable, such as the firm's policies and procedures that are specific to PIE engagements, and apply them when the proposed PIE provisions become effective.

148. The Ethics Committee acknowledged that the expected timeline for practitioners to implement the PIE provisions and the proposed local amendments in this ED is approximately four to five months, which is shorter than the usual implementation period when a new pronouncement is introduced to the Code.

149. The Ethics Committee recognized that stakeholders may be concerned by this shortened timeframe. To this end, the Ethics Committee noted that paragraphs R540.8 and R600.25 in Chapter A of the Code provide specific allowances for firms to transition when a non-PIE audit client becomes a PIE.

150. Additionally, the Committee anticipates that the mandatory categories for PIEs, refined by the Institute's proposals in paragraphs 86 and 98, would not lead to a significant increase in the number of PIE engagements compared to existing requirements.

151. For the additional PIE categories proposed in this ED,
   - MPF schemes: Based on the statistics in paragraph 113, the Ethics Committee anticipates that at most 30 MPF schemes might need to transition from non-PIEs to PIEs under the proposed requirements. The actual number is expected to be lower as some MPF schemes are already being classified as a PIE at the firm level.
   - ORSO schemes: In practice, ORSO schemes are generally administrated and managed by the fund manager in aggregate. While there is no publicly available information, it is reasonable to assume that the aggregating arrangement of ORSO schemes would reduce the number of separate audit engagements compared to the total number of ORSO schemes discussed in paragraph 123. The actual number of transitions to PIEs is expected to decrease even further as some ORSO schemes are already being classified as a PIE at the firm level.
   - In addition, the range of NAS (and specifically those prohibited for PIEs) that can be provided to MPF schemes and ORSO schemes is much more limited compared with an operating entity.

152. In addition to the above, the proposals are effective for audits and reviews of financial statements for periods beginning on or after 15 December 2024. For a calendar year-end entity this means the proposals are effective for the 2025 audit. The Ethics Committee considers that publishing the final pronouncement by July 2024 will allow sufficient time for practitioners to prepare and plan for any necessary changes to these engagements.

VII. Guide for Respondents

153. The Ethics Committee welcomes comments on all matters addressed in this ED, but especially those identified in the *Request for specific comments* below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the Ethics Committee to be made aware of this view.

Request for specific comments

Mandatory PIE categories

In terms of the revised PIE definition in the context of Part 4A of the Code:

1. For the second mandatory PIE category, i.e., entities whose main function is to take deposits from the public, do you agree with the Ethics Committee's proposal to define these entities more precisely as licensed banks (as defined under the BO), except where there is no statutory requirement for audit engagements to be performed? Please explain your views.

2. For the third mandatory PIE category, i.e., entities whose main function is to provide insurance to the public, do you agree with the Ethics Committee's proposal to define these entities more precisely as authorized insurers (as defined under the IO), except for (i) captive insurers, and (ii) insurers where there is no statutory requirement for audit engagements to be performed? Please explain your views.

Additional PIE categories

3. Do you agree with the Ethics Committee's proposals to classify the following entities as PIE within the context of Part 4A of the Code? Please explain your views.
    - All MPF schemes registered under the MPF Ordinance; and
    - ORSO schemes registered under the ORSO Ordinance with total assets exceeding HK$100 million by reference to the most recent set of audited financial statements. If such audited financial statements are not available, firms should make the determination based on the most recent available information which indicates the asset size of the scheme.

4. Do you have any comments on the possible classification of certain SFC-authorized funds; organizations that handle client assets as part of their primary business; organizations that receive government subvention; charities; financial market infrastructures; public utilities and systemically significant entities as PIEs?

Others

5. Are there any other matters related to this ED that the Ethics Committee should consider as it deliberates the proposed local refinement of the PIE definition? Please explain your views.

VIII. Concluding remarks and next steps

Phase 1 activities (this ED)

154. The Ethics Committee appreciates the numerous comments and suggestions received during the Institute's targeted consultations to date which have been essential in formulating the proposed local refinements. The Ethics Committee welcomes further comments on matters discussed in this ED.

155. Comments should be supported by specific reasoning and should be submitted in written form.

156. The proposals in this ED may be modified in light of the comments received. For the issuance of the final pronouncement, the Ethics Committee will deliberate the stakeholders' views in its meetings after the end of the comment period.

Phase 2 activities

157. As mentioned in paragraph 30, the AFRC, when providing its comments on the Institute's proposed ED, highlighted that for Hong Kong to maintain its position as a leading international financial centre, Hong Kong should take a broad, strategic view on the issue of public interest and proactively examine potential issues based on the overarching objectives set out in paragraphs 400.8 to 400.10 of the PIE provisions. As mentioned in paragraph 102, IESBA will be conducting further research and outreach with key stakeholders in 2024 as part of its holistic review of PEBs and CIVs on their arrangements and relationship with trustees, managers and advisors. IESBA plans to issue an exposure draft based on its findings in 2025, and subsequently releases the final pronouncement in 2026.

158. Accordingly, SFC-authorized funds (as discussed in paragraph 139) and entities beyond those discussed in this ED would be considered in the Institute's Phase 2 of local refinement to the PIE definition, which might result in defining additional categories of PIE in the context of Part 4A of the Code. The Ethics Committee will commence research on any potential additional PIE categories in 2024 and will issue a public consultation in due course.