



Minutes of the 270th meeting of the Ethics Committee held on Monday, 10 July 2025 at 12:30 p.m. in Board Room of the Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong (and via video conference)

- Present: Ms. Mary Xuereb (Chair)
Mr. Dacky Leung (Deputy Chair) (Dial-in)
Mr. Horace Ma (Deputy Chair) (Dial-in)
Mr. Dennis Chan (Dial-in)
Ms. Elly Chui (Dial-in)
Mr. Eric Hung (Dial-in)
Ms. Elaine Kwong (Dial-in)
Mr. Rudolf Leung (Dial-in)
Ms. Winnie Leung (Dial-in)
Mr. Charbon Lo (Dial-in)
Mr. Ricky Wong
- In attendance: Mr. Chris Joy, Head of International
Ms. Cecilia Kwei, Director, Standard Setting (SS)
Ms. Selene Ho, Deputy Director, SS
Ms. Grace Lau, Associate Director, SS
Ms. Cherry Yau, Associate Director, SS
- Observer: Ms. Lily Rui, Accounting and Financial Reporting Council (AFRC)
Ms. Fion Hung, AFRC
- Apologies: Mr. Hubert Wong
Ms. Cecilia Yam

Action

2009. Minutes of the 269th meeting

The Committee approved the minutes of the 269th meeting.

2010. Work Plan Status Report

The Committee considered the report and noted the progress of various projects. In particular, the Committee took note of the revised work plan of the International Ethics Standards Board for Accountants (IESBA) which focuses on building stronger ethical cultures, enhancing support for global adoption of IESBA standards, and adopting a smarter and more responsive approach.

2011. Update on Phase 2 of the public interest entity (PIE) definition project

SS provided an update on the project since the last meeting, which included a roundtable session held on 12 June to discuss the proposed PIE classification of Collective Investment Vehicles (CIVs)¹. This session brought together regulators, industry stakeholders and auditors from the funds sector. Additionally, there has

¹ In this document, the terms CIVs and SFC-authorized funds are used interchangeably.

been ongoing engagement with the Securities and Futures Commission (SFC), industry associations, the Institute's regulatory advisory panels and professional CPA bodies overseas.

(a) Proposed PIE classification of CIVs

Based on the feedback from the roundtable discussion, SS reported on additional research and analysis for the Committee's consideration. The Committee discussed and noted the following:

Potential cost implications and level playing field resulting from the PIE classification of CIVs

- The PIE definition in the HKICPA *Code of Ethics for Professional Accountants* (the Code) primarily emphasizes auditor independence. It does not mandate additional or elevated auditing requirements.
- Generally, classifying an entity as a PIE does not in itself increase the engagement risk associated with an audit. CIVs with complex investments may carry higher audit risks regardless of their PIE classification.
- Compliance with rotation requirements for PIE audit engagements may necessitate additional firm-wide training to ensure that sufficient personnel are equipped to perform audits of CIVs. This may lead to increased audit costs.
- Prior to the expanded PIE definition in the Code, some firms had aligned their audit methodologies for both listed entities and PIEs, including non-listed PIEs, by consistently applying rigorous procedures such as engagement quality reviews when auditing these entities. However, the expanded PIE definition now encompasses a wider range of entities beyond those that are listed or publicly traded. This marks a shift from the previous PIE definition.
- In light of this development, firms may need to assess whether enhanced audit methodologies, beyond those mandated by relevant regulatory and professional requirements, should be uniformly applied to all types of PIEs that are not publicly traded entities (PTE), particularly given the expanded PIE definition now includes additional entity types. Firms may consider adopting some or none of the enhanced audit procedures applicable to PIEs when auditing non-PTE PIEs, depending on specific facts and circumstances. This approach could help address resource considerations while ensuring a risk-based approach in audit engagements and allocating resources appropriately.
- A member suggested that discussions regarding the cost implications of PIE classification may not yield definitive outcomes, as any indicated ranges for audit fee increases could be arbitrary. The focus of standard-setting should instead be on whether enhanced auditor independence requirements should be adopted for CIVs given Hong Kong's position as an international financial center.
- It was agreed that the issue of a level playing field falls outside the Institute's remit as a standard setter and should be addressed through policy-making by industry regulators.

Committee

Alternative criteria for PIE classification

- The meeting explored alternative criteria for classifying CIVs as PIEs beyond a size test, but no other principle-based criteria were identified after considering the practical implications.
- A member expressed concerns about classifying SFC-authorized funds as PIEs, while the Committee noted that some stakeholders advocated for

including all SFC-authorized funds as PIEs. Considering the diversity of views, the principle of proportionality and the absence of alternative criteria, the Committee agreed to adopt the size threshold as the sole criterion for the PIE classification of CIVs.

- SS clarified that the data used to develop the proposed PIE threshold for CIVs in the Discussion Paper for PIE Phase 2 (DP) was based on information from the Integrated Fund Platform (Platform) operated by the Hong Kong Exchange and Clearing Limited, with data downloaded in March 2025. While there may be timing differences between the Platform's data and the official data maintained by the SFC, the anticipated impact of these discrepancies is considered immaterial. Going forward, SS will coordinate with the SFC to facilitate data extraction as needed. SS
- The proposed PIE threshold is not intended to incorporate or forecast future growth of CIVs in Hong Kong. SS clarified that there are plans to revisit and, if necessary, revise the proposed PIE threshold for CIVs using updated data when the proposal approaches finalization. This approach will ensure that the final threshold remains relevant and reflects the most current market conditions, considering the growth of the fund industry. The objective is to set a threshold that provides appropriate coverage of CIVs classified as PIEs based on the latest available data at the time of finalization. SS

Timing of the implementation

- It was agreed that while SS and the Committee will work towards finalizing PIE Phase 2, its implementation will be closely monitored and considered at a later stage. Committee SS
- Given the proposed implementation period of 12 to 18 months after the publication of the final pronouncement, it is unlikely that PIE Phase 2 will take effect before 2028.

Others

The meeting also concluded with the following:

- The Committee approved the meeting minutes of the CIV roundtable and agreed to circulate them to participants for their reference. SS
- Firm representatives on the Committee will provide indicative additional work or resources required resulting from classifying CIVs as PIEs. Their feedback will be used to develop a response for industry stakeholders addressing concerns regarding cost implications. Committee
- There are no outstanding information gaps that the Committee has not already addressed regarding the PIE discussion on CIVs.

[Post meeting notes: The meeting minutes of the CIV roundtable, revised with editorial changes, were circulated to the Committee on 22 July and roundtable participants on 30 July.]

(b) Proposed PIE classification of corporations licensed by the SFC

The DP proposes classifying corporations licensed by the SFC (LCs) that hold client money exceeding HK\$2 billion as PIEs. In response to diverse perspectives on this proposal and feedback received since the DP's distribution, SS proposed an extended proposal regarding the PIE classification of LCs (extended proposal). Building on the DP, it introduces an additional income-based size test as an alternative PIE criterion for LCs. This approach recognizes that an LC's income

from regulated activities could serve as an indirect indicator of the extent of client assets it holds and its significance in the market.

The extended proposal also clarifies that the proposed PIE classification applies exclusively to LCs engaged in securities dealing, i.e. LCs that hold a Type 1 licence. It also suggests refining the method of assessing client money by replacing the year-end balance with a 12-month average.

The Committee considered whether it would be appropriate to circulate the extended proposal to recipients of the DP. While there was broad consensus that this would facilitate more comprehensive and informed feedback on both the original DP and the extended proposal, some members expressed reservations about distributing it prior to approval by the Committee and the HKICPA Council, as this could create confusion about the authority and status of the extended proposal.

After deliberation, the Committee agreed to distribute the extended proposal to DP recipients with a caveat. This caveat will clarify that the extended proposal is based on SS's further research and consideration of comments received to date. While they were presented to the Committee, they have not yet received approval from either the Committee or the HKICPA Council. This clarification aims to ensure that recipients understand the extended proposal as an addition to the DP and consider it accordingly when providing feedback.

SS

[Post meeting note: As the extended proposal has not yet been approved by the Committee, and in light of comments from several Committee members regarding potential confusion for stakeholders, SSD has re-evaluated the position on circulation. Given the limited time remaining until the DP comment deadline at the end of July, it has been decided not to circulate the extended proposal to DP recipients. Instead, the extended proposal will be revisited and further considered during the upcoming deliberations on the PIE proposals.]

2012. Any other business

The Committee did not identify any local implementation issues regarding ethical requirements for discussion.

The Committee noted that the next meeting is scheduled for 22 September and members were requested to suggest agenda items by 1 September.

[Post meeting notes: The meeting scheduled for 22 September was cancelled. The next meeting following the one held in July was subsequently held on 14 November.]

There being no further business, the meeting closed at 2:30 p.m.

MARY XUEREB
CHAIR

14 November 2025