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INVITATION TO COMMENT ON PROPOSED REVISION OF CODE OF ETHICS (ED 2018-2)

Dear Gillian

On behalf of Ernst & Young New Zealand, I am writing to provide comment on the New Zealand Regulatory Board's Invitation to Comment on the Proposed Revision of the Code of Ethics that applies to New Zealand resident members of CA ANZ.

We wish to specifically comment on the following question:

4. Do you agree with the amendments to the NZ specific provisions? Please explain any issues you have identified.

Paragraph 310.9 A3 of the International Code has been replaced with NZ R310.9.1 and NZ R3109.2.

NZR310.9.1 Where a member has a conflict of interest but can apply measures (refer to 310.8 A2) or safeguards to reduce it to an acceptable level, the member shall disclose the nature of the conflict of interest and the related measures or safeguards, if any, to all clients or potential clients affected by the conflict.

The equivalent requirement under paragraph 310.9 A3 of the International Code is limited to clients, as opposed to "clients or potential clients". It is not clear to us that there is a specific difference in the New Zealand environment as compared to international environments that would justify a change from the International Code in this regard. As a standard taker, in our view, the international code should be amended in New Zealand only where there is a clear difference in our market that would require amendment.

If the New Zealand addition is to be retained, we would like to understand the intention of including "potential clients" in the New Zealand code and how "potential clients" is intended to be defined (which we believe it should be). Without it being defined, it is unclear which entities a member would be required to disclose conflict to. In a large firm, there are significant pipelines of potential clients for a wide range of services, some offered by members and some not. Some of these may be at the stage of negotiating an engagement agreement, others may simply be an entity that the firm would like to further develop a relationship with but with whom no specific engagements have been discussed. There will also be entities which sit between these two scenarios. In our view, a definition and examples of "potential client" would be required to clarify the requirement and make the requirement understandable and workable.

As an example of a situation in which the definition may be unclear, and so may lead to a lack of consistency in application in the absence of definition of "potential client", consider a situation in which a firm develops a standard product or service offering which could be applicable to all businesses in a particular sector. All of these could be considered "potential clients" even though there may not be (and

may not be intended to be) any active discussions with them as yet. For example a product offering is developed for the banking industry for which the member is in discussions with Bank A only. Would potential clients also include Banks B, C & D?

Please contact either of us if you would like to discuss this matter further.

Yours sincerely



Simon Brotherton
New Zealand Professional Practice Director

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Associate Director – Professional Practice