CIRCULAR LETTER

TO : ALL EXTERNAL AUDITORS, AUDITING FIRMS AND INSURANCE COMMISSION (IC) REGULATED ENTITIES

SUBJECT : ADOPTION OF THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS IN THE PHILIPPINES

WHEREAS, the Insurance Commissioner under Section 437 of Republic Act (R.A.) No. 10607 (Amended Insurance Code) may issue such rulings, instructions, circulars, orders and decisions as may be deemed necessary to secure enforcement of R.A No. 10607, to ensure efficient regulation of the insurance industry in accordance with global practices and to protect the insuring public;

WHEREAS, the last paragraph of Section 347 of the Amended Insurance Code provides that no external auditor shall be engaged by supervised persons or entities unless it has been issued an accreditation certificate by the Commissioner.

WHEREAS, Section 6 (k), (l) and (n) of the R.A. No. 9829 (Pre-need Code) provides that the Insurance Commission (IC) have the power to:

(k) Prepare, approve, amend or repeal rules, regulations, orders, and circulars and issue opinions and provide guidance on, and supervise compliance with, such rules, regulations, orders and circulars;

(l) Formulate policies and recommendations on issues concerning the pre-need industry, including proposed legislations; and

(n) Exercise such other powers as may be provided by law as well as those which may be implied from, or which are necessary or incidental to carry out the express powers granted the Commission to achieve the objectives and purposes of the law.
WHEREAS, Section 4 of Executive Order (E.O.) No. 192 series of 2015, provides authority to the IC to formulate rules, regulations to regulate the Health Maintenance Organizations (HMOs) and its related services;

WHEREAS, the existing provisions of the executed Memorandum of Agreement (MOA) dated 12 August 2009, binds the IC, the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), and the Professional Regulatory Commission – Board of Accountancy (BOA) to a simplified and synchronized accreditation requirements for External Auditors and/or Auditing Firms.

WHEREAS, the Financial Sector Forum (FSF), that includes the IC, the BSP, the SEC and the PDIC, agreed to revise the framework on the selection of External Auditors;

WHEREAS, on 08 August 2019, the IC issued CL No. 2019-39 Revised Framework for Accreditation of External Auditors in order to comply with the single accreditation framework among the FSF member agencies;

WHEREAS, on 28 October 2019 the Professional Board of Accountancy (BOA), issued the BOA Resolution No. 53 series of 2019 adopting the 2018 edition of the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants;

NOW THEREFORE, pursuant to the power vested in this Commission under Section 437 of the Amended Insurance Code, Section 6 of the Pre-need Code of the Philippines, and Section 4 of E.O. No. 192, the following are hereby RESOLVED:

SECTION 1: ADOPTION OF THE CODE OF ETHICS FOR PROSSIONAL ACCOUNTANTS

1.1. All accredited External Auditors and Auditing firms shall observe and comply with the current requirements of the Code of Ethics for Professional Accountants in the Philippines as adopted by the Philippine Board of Accountancy (BOA).

SECTION 2: ROTATION OF ACCREDITED EXTERNAL AUDITORS OF REGULATED ENTITIES

2.1. The IC accredited External Auditor, including the engagement and quality control partners of the accredited Audit Firm, of the IC’s regulated entities shall be rotated in accordance with the relevant provisions of the Code of Ethics for Professional Accountants in the Philippines and implementing rules and regulations as adopted and issued by the Philippine BOA at the time of audit.

2.2. The above requirement supersedes Section 2.4 of CL No. 2019-39 on accredited External Auditor’s rotation and cooling off requirements.
SECTION 3: EFFECTIVITY

3.1. The issuance of this CL, upon effectivity, supplements CL No. 2019-39 and amends all previously issued Circulars Letters inconsistent with the requirements of this CL.

For strict compliance.

DENNIS B. FUNA
Insurance Commissioner

WHEREAS, Section 9 of Republic Act (RA) No. 9298, also known as the Philippine Accountancy Act of 2004, provides for the power and function of the Professional Regulatory Board of Accountancy (Board) to prescribe and/or adopt a Code of Ethics for the practice of accountancy.

WHEREAS, the International Federation of Accountants (IFAC) has adopted the 2018 edition of the International Code of Ethics for Professional Accountants, including the International Independence Standards (2018 IESBA Code), issued by the International Ethics Standards Board for Accountants (IESBA), with the following new substantive provisions introduced:

1. An enhanced and more prominently featured conceptual framework.
2. Clearer and more robust provisions pertaining to safeguards that are better aligned with threats to compliance with the fundamental principles and to independence.
3. Strengthened independence provisions addressing the long association of personnel with an audit or assurance client.
4. New and revised sections dedicated to professional accountants in business (PAIBs) relating to preparing and presenting information and pressure to breach the fundamental principles.
5. Clear guidance for professional accountants in public practice (PAPPs) that relevant PAIB provisions set out in Part 2 of the Code are applicable to them.
6. Strengthened provisions for PAPPs and PAIBs pertaining to the offering or accepting of inducements, including gifts and hospitality.
7. New application material to emphasize the importance of understanding facts and circumstances when exercising professional judgment; and
8. New application material to explain how compliance with the fundamental principles supports the exercise of professional skepticism in an audit or other assurance engagement.

WHEREAS, the Philippine Institute of Certified Public Accountants (PICPA), the Accredited and Integrated Professional Organization (AIPO) for Certified Public Accountants in the Philippines, being a member of the IFAC, is committed to the latter's broad objective of developing guidance on ethics for professional accountants that will improve the degree of uniformity of professional ethics throughout the world.

WHEREAS, the 2018 IESBA Code was approved by the PICPA Board of Directors, upon the recommendation of its Ethics Committee, and which was endorsed to the Board and the Commission for adoption as the new Code of Ethics for Professional Accountants in the Philippines.
WHEREAS, in considering the proposed Resolution, the Board and the Commission have taken into account the Philippine regulatory requirements and circumstances as basis for potential changes or revisions that may be introduced therein.

NOW THEREFORE, the following are hereby RESOLVED:

1. Adoption of the 2018 IESBA Code, to be known and referred to as “The Code of Ethics for Professional Accountants in the Philippines” (2018 edition), subject to certain changes or revisions as herein set forth:

2. The implementation of Sections 260.20 A1 to R260.22, R260.26, 360.25 A1 to R360.27, and 360.36 A3 to R360.38 pertaining to the disclosure of instances of non-compliance with laws and regulations (NOCLAR) to the appropriate authority shall be subject to the pertinent rules and guidelines issued or may hereinafter be issued by appropriate regulatory authorities and instituting appropriate provisions on whistleblower protection.

3. Adoption of appropriate changes to the 2018 IESBA Code in order to fit to the Philippine setting:

   A. Use of the term “Philippines” instead of “International” when referring to auditing standards and practices consistent with the adoption of the Auditing and Assurance Standards Council, as follows:

      i. Philippine Standards on Quality Control (PSQCs);
      ii. Philippine Standards on Auditing (PSAs);
      iii. Philippine Standards on Review Engagements (PSREs);
      iv. Philippine Standards on Assurance Engagements (PSAEs);
      v. Philippine Framework for Assurance Engagements

   B. Definitions

      1) The definition of Professional Accountant is revised as follows:

         Professional Accountant refers to an individual who holds a valid Certificate of Registration and current Professional Identification Card issued by the Board of Accountancy and the Commission, whether he/she be in the public practice, industry or commerce, the public sector, or education.

         In Part 1, the term “professional accountant” refers to individual professional accountants in business and to professional accountants in public practice and their firms.

         In Part 2, the term “professional accountant” refers to professional accountants in business.

         In Parts 3, 4A and 4B, the term “professional accountant” refers to professional accountants in public practice and their firms.

      2) The definition of Public Interest Entity (PIE) and Significant Subsidiary shall be defined by relevant regulatory agencies such as the Securities and Exchange Commission, Bangko Sentral ng Pilipinas, and Insurance Commission.
4. Setting of the effectiveness dates of the new Code of Ethics for Professional Accountants in the Philippines (2018 edition), as follows:

- Parts 1, 2 and 3 shall be effective on June 15, 2019.
- Philippine Independence Standards Part 4A relating to independence for audit and review engagements shall be effective for audits and reviews of financial statements for periods beginning June 15, 2019.
- Philippine Independence Standards Part 4B relating to independence for assurance engagements with respect to subject matter covering periods shall be effective for periods beginning June 15, 2019.
- Long association provisions are as follows:
  
  a) Subject to the transitional provision in (c) below, paragraphs 540.1 to 540.20 A1 are effective for audits of financial statements for periods beginning December 15, 2018.
  b) For assurance engagements covering periods sections 940.1 to R940.4 relating to long association of personnel with an assurance client shall be effective for periods beginning December 15, 2018.
  c) Section R540.19 applicable to jurisdictions with a shorter cooling-off period of less than five (5) consecutive years established by law or regulation, which is the case for the Philippines, are effective only for audits of financial statements for periods prior to December 15, 2023.

During the transition period, the minimum cooling-off period shall be three (3) years. This will facilitate the transition to the required cooling-off period of five (5) consecutive years for engagement partners in the Philippines.

5. Reference to the illustrative examples on long association of personnel with an audit client refer to the Long Association of Personnel with An Audit Client Questions and Answers publication issued by the Staff of the IESBA (Annex B).

RESOLVED FURTHER, that in case of conflict between the provisions of the Code and that of a domestic law, the latter shall prevail.

This Resolution and its Annex shall take effect fifteen (15) days following its publication in the Official Gazette or any newspaper of general circulation.

Let copies hereof be furnished the U.P. Law Center and the PICPA.

DONE, in the City of Manila, this 22nd day of July, 2019.

[Signatures]

NOE G. QUINANOLA
Chairman

MARKO ROMELO FUENTES
Vice-Chairman
ADOPTION OF THE 2018 EDITION OF THE INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS (IESBA) INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS, INCLUDING THE INTERNATIONAL INDEPENDENCE STANDARDS, AS THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS IN THE PHILIPPINES (2018 EDITION), AND PRESCRIBING AMENDMENTS THERETO

ARLYN S. VILLANUEVA
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SAMUEL B. PADILLA
Member

GERVACIO I. PIATOR
Member

THELMA S. CIUDADANO
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Commissioner

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