



Financial Reporting Council (Amendment) Bill 2018 Media Statement by HKICPA

(Hong Kong, 19 January 2018) — In response to the gazetting today of the Financial Reporting Council (Amendment) Bill 2018, Mr. Eric Tong, President of HKICPA, makes the following statements:

HKICPA was an early advocate for an independent regulator of listed company auditors in Hong Kong, therefore we are keen to see the completion of this exercise. An independent regulatory body under the new regime will strengthen Hong Kong's reputation as an international financial and capital market.

HKICPA, in the best public interest, initiated discussions on development of a suitable, independent model for Hong Kong. Over 10 years ago, at the suggestion of the HKICPA, the Government established the Financial Reporting Council to take up investigation of listed company audits. Since then, we saw international models have continued to move to higher degree of independence. A few years ago, HKICPA restarted its work in developing a more independent regulatory model. Later, the Government took the lead and developed the appropriate legislation to reform the FRC.

We have worked very closely with the Government and the FRC to ensure the model being proposed are in line with international benchmarks and will be effective and fair. We have raised comments regarding structure, composition and operational features of the system. We are pleased the bill has broadly addressed our concerns.

In particular, we are pleased to see that there will be provisions to require the FRC to establish and publish guidelines on sanction determination and application, and to separate the functions of inspection and investigation from discipline. We will continue to closely work with all parties for their implementation under the new regime.

However, some of our concerns remain, including the important issues of governance, oversight powers, funding, sanctioning and regulation of non-Hong Kong auditors.

As a matter of principle, the success of FRC hinges on having sufficient persons with relevant, practical and up-to-date auditing skills and experience. This includes the FRC

Council itself, inspection and investigation teams, disciplinary tribunals and independent case assessors and appeal panels. We will welcome this pre-requisite to be put in place upon implementation.

While the bill provides for the FRC to issue directives to HKICPA to take specific actions, we believe due process should be in place for the FRC to follow regarding how the FRC will exercise its oversight powers. Directing HKICPA to take specific action should not be exercised by the FRC without following a due process that is no less robust than the HKICPA's existing processes such as public consultation.

On funding, HKICPA feels that the proposed \$90 million annual budget, a three-fold increase, requires further substantiation. Judging from our own experience in regulation, inspection and discipline, the figure seems very high considering the number of PIE auditors under the purview of FRC. The Government needs to be more forthcoming and transparent with the funding parties, to ensure everybody is comfortable that their respective contribution is reasonable and fair.

A number of our member firms continue to have concern over the maximum penalty of \$10 million, which they believe will impose an undue financial burden on smaller firms.

Last but not least, it is not clear how non-Hong Kong auditors will be regulated. It seems that FRC will rely on regulatory cooperation agreements with the corresponding overseas regulators in regulating non-Hong Kong auditors, but there are no specific details as to what criteria the FRC will use before placing such reliance. We believe the bill should explicitly spell out that the FRC will have the ultimate responsibility and power to directly regulate non-Hong Kong auditors, even though regulatory cooperation agreements are in place. We are concerned that to rely on overseas regulators will not be sufficient to protect the interests of investors in Hong Kong.

HKICPA will keep on pursuing these issues during the legislative process to ensure the new regime will put in place independence, expertise and stewardship in the FRC for it to play its role in enhancing the international status of Hong Kong.

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About HKICPA

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the statutory body established by the Professional Accountants Ordinance responsible for the professional training, development and regulation of certified public accountants in Hong Kong. The Institute has more than 42,000 members and 18,000 registered students.

Our qualification programme assures the quality of entry into the profession, and we promulgate financial reporting, auditing and ethical standards that safeguard Hong Kong's leadership as an international financial centre.

The CPA designation is a top qualification recognized globally. The Institute is a member of and actively contributes to the work of the Global Accounting Alliance and International Federation of Accountants.

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