

Clement Chan
25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong
2 January 2014

The Hong Kong Institute of CPAs
37th Floor Wu Chung House
213 Queen's Road East, Wanchai
Hong Kong

Dear Sirs,

Regulatory framework for listed company audits

I am writing in response to the Information Paper issued by the Hong Kong Institute of CPAs ("the Institute") on the subject.

I support all of the suggestions and positions made and taken by the Institute as contained in the Information Paper and would like to elaborate on the following points:

General Background

- I agree that it is imperative for Hong Kong to attain membership of IFIAR because of obvious reasons. However as for EU equivalent status I am not sure the case is as strong and a detailed cost benefit analysis should be carried out.
- I also believe Hong Kong SAR government should take this opportunity to look at the audit profession holistically as only a comprehensive review would take into consideration of all the relevant factors that may affect the direction and shape of the profession in the long run e.g. factors such as professional liability reform, development of the market in terms of choice and competitiveness etc.

Oversight model

- I support the oversight model as described by the Institute in paragraph 27 and 28 of the Information Paper.

Registration

- I support the Option B whereby the authority for the registration of firms and individual auditors are given to the Institute by law and not delivered by the Independent Oversight Body ("IOB"). The IOB will have oversight authority over HKICPA through the model as set out in paragraph 27 and 28 of the Information Paper.
- I do not agree the naming of an individual or individuals with ultimate responsibility for system of quality control as suggested in paragraph 33 of the Information Paper. The actual functioning of risk management system varies from firm to firm depending on their size, culture, structure, risk appetite etc. In many instances the risk management procedures is a result of the specific system that a firm establish and build over the years. It is extremely difficult to pinpoint specific individual(s) to carry the overall risk management responsibilities. In light of the fact that the IOB could have the choice of naming the whole firm as responsible party in case of systematic failure I do not see the justification of having the extra need to name individual(s) for this purpose.
- I support the Institute's suggestion to have an explicit definition of "fit and proper" based on the same general membership criteria as laid out in paragraph 36 for the Information Paper for clarity purpose.
- I strongly support the suggestion of having the Institute to be part of the decision process in determining the acceptance criteria for non- Hong Kong audit firms including the H shares Chinese audit firms based on the ground of fairness and attaining a level playing field.
- I support the HKICPA position in respect of non- Hong Kong audit firms and auditors as stated in paragraph 48 of the Information Paper.

Sanction and Discipline

- I support option B of the disciplinary framework as set out in the proposed framework because of the reason laid out in paragraph 56 of the Information Paper. I also support to increase the number of member of the proposed disciplinary committee from 3 to 5 due to the reason laid out in paragraph 62 of the Information Paper.
- I support the suggestion made by the Institute in providing a guideline on sanctioning procedures and a clear fine imposition guideline is also needed as set out in paragraph 73 of the Information Paper.

Standard setting

- I support the Institute's suggestion to have option B oversight model because of reason given in paragraph 84 of the Information Paper.

CPD management and policy setting

- I support the Institute's suggestion to have option B oversight model in CPD management and policy setting

Funding

- I support the Institute's position in respect of the funding arrangement as set out in paragraph 89 of the Information Paper.

If you need further clarification relating to above, please do not hesitate to contact me. Thank you for your attention.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Clement Chan', with a long horizontal flourish extending to the right.

Clement Chan

Membership number: F1584