

Poon Tsun Wah Gary  
Rooms 601-2, 609-10 Dominion Centre  
43-59 Queen's Road East  
Wanchai  
Hong Kong

The Hong Kong Institute of Certified Public Accountants  
37<sup>th</sup> Floor Wu Chung House  
213 Queen's Road East  
Wanchai  
Hong Kong

Dear Sirs,

**Regulatory framework for listed company audits**

I agree with the HKICPA Council's preferred outcome and positions as set out in the consultation documents. In addition, I would like to provide my comments which I feel strongly about as follows:

1. In view of the limited audit or assurance services rendered by Hong Kong auditors to listed companies in Europe and the potentially wide and uncertain impacts from EC equivalence, independent oversight complying with IFIAR requirements would suffice for Hong Kong to uphold its status as an international financial centre. IFIAR requirements are after all recognised internationally while EC equivalence is only recognised regionally in Europe. More layers and wider coverage of oversight do not necessarily translate to higher audit quality but can cost Hong Kong dearly. Hong Kong should not adopt a "change all" approach for all six elements of regulation merely for the sake of changing especially when its capital market with the current regulatory framework ranked first or second in terms of capital raised from IPO's for a number of years in the past decade. Changing the regulatory framework more than sufficient or appropriate can have negative effects on investor confidence. I would also question the merits of highly or even stringently regulated audit professions in the U.S. and Europe. Ironically, we have still seen large financial and corporate failures in these jurisdictions.
2. The monetary sanction of the higher of HK\$10 million and three times profit or loss based on the SFC model appears not be appropriate in the context of the audit profession. Auditors render opinions according to professional standards that are mainly principle based while SFC regulatees are subject to ordinances, codes and guidelines that tend to be more rule based. Sanctioned SFC regulatees tend to make personal gains from non-compliances or wrongdoings yet often not the case for auditors. These sanctioned SFC regulatees may or may not face civil claims yet auditors tend to face civil suits in audit failures. It is important to bear in mind that the sanctions to be imposed should not account for or duplicate the amount for compensation of loss which is dealt with in civil claims.

3. If international best practices are of paramount importance, I am puzzled why professional liability reform for auditors has been left aside from this or prior consultations since the U.K. introduced criminal liability and undertook professional liability reform in similar time periods. Furthermore, the EU and the PRC embrace the concepts of professional liability reforms.
4. The audit profession is an integral part of the capital market in Hong Kong. I am deeply concerned that more accountants particularly the younger generation, exit the audit profession while fewer talents enter the profession because the risk and reward simply do not commensurate. The potential risks of compensation for loss in civil claims, hefty penalties up to HK\$10 million per case under this proposal and criminal liability soon to be enacted and the absence of a professional liability reform can collectively make the audit profession unattractive and even unsustainable to retain and attract talents. With greater demand for IPO's and professional work for listed companies yet a shorter and shorter talent pipeline, I wonder whether we will have enough manpower in town to serve the capital market. Auditors are risk adverse or even conservative in general. One or if not the only option to cope with the higher and higher potential risks is fee increase. With a shortage of supply of auditors in Hong Kong and upward pressure on fees, the competitiveness of the audit profession together with the capital market can be adversely affected and eroded. Auditors from other jurisdictions may take up market shares from the pie and it is not unlikely that companies may migrate their listings from Hong Kong if it becomes a jurisdiction that is stringently or overly regulated, for example the U.S..

Should you request further clarification on the above, please do not hesitate to contact me. Thank you for your time and attention.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Poon Tsun Wah Gary', written in a cursive style.

Poon Tsun Wah Gary  
Membership number: A 22408