

10 January 2014

Mr. Raphael Ding
Chief Executive and Registrar
Hong Kong Institute of Certified Public Accountants
37/F, Wu Chung House,
213 Queen's Road East, Wanchai,
Hong Kong

Dear Mr. Ding,

Re: Regulatory framework for listed company audits

We are writing, as a member of the Hong Kong Institute of Certified Public Accountants (the "Institute"), to provide our comments on the information paper about regulatory framework for listed company audits.

We are pleased to see that HKICPA has taken an early lead in identifying necessary reform to the system of audit regulation back in 2008. We also appreciate the recent joint efforts made by the Institute, the Financial Services and the Treasury Bureau and the Financial Reporting Council on the formulation of an effective system for the independent oversight of listed-company auditors.

The proposal of new regulatory system is without a doubt a positive response to the global trend of establishing independent auditor regulatory and oversight bodies. The Hong Kong's auditor oversight regime could be benchmarked against international standards, thus upholding the standing of Hong Kong's capital market and auditing profession.

We agree that the Institute should continue to be responsible for Registration, Continuing Professional Development (CPD) and Standard Setting and such responsibilities should be derived from direct assignment in law and not delegated from the Independent Oversight Body (IOB).

We agree with the view that one individual should not be held responsible for firm-wide problems that are the collective responsibility of the firm. The fact is that the audit firm's deficiencies if any might be a result of inappropriate culture, strategy, policies or resources of the firm, and it is difficult to charge one individual who is required to carry the overall responsibilities.

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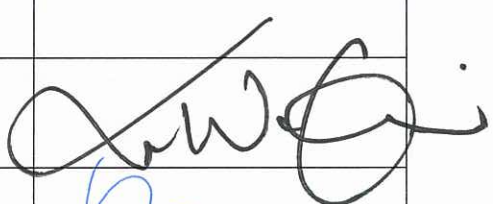



We are also concerned about effective regulation of Mainland and non-Hong Kong auditors of companies listed in Hong Kong. The best interests of Hong Kong auditors should always be considered, ensuring the ground of fairness.

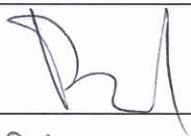
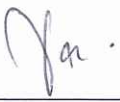





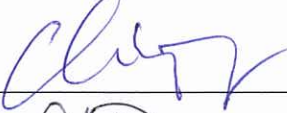



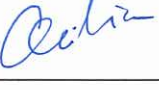

For the structure of Enforcement/ Disciplinary proceedings, we agree with the Institute that those responsible for investigation and inspections should not also be responsible for sanctioning. We support the Institute's preferred option B "Cases arising from inspection and investigation be sent to a fully independent disciplinary committee for decision and sanctioning".

While we admit that punitive measure would be necessary for wrongdoing, we believe the proposed monetary penalties of three times profit or loss, or HK\$ 10 million, whichever is greater, are not practical. For many audit firms in Hong Kong, such monetary sanctions would be unaffordable, which would greatly threaten their survival. This unintended consequence would be definitely not a good sign of a diversified market and healthy development of the profession as we expected. That would probably greatly influence the accountants working in mid-tier and small sized audit firms as well. Thus, we agree that the penalties should be proportionate and determined by various factors including the firm's financial resources, if monetary penalties are to be included.

We hope the above comments would be useful, and we truly wish that the reform would be successful in improving the audit quality of listed companies in Hong Kong and securing the long-term development of the profession.

Written and signed by:

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