

**Guideline on Auditor’s Report for Application for Certification of Funds
Issued by the Monetary Authority
for Practising Members
of the Hong Kong Institute of Certified Public Accountants**

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1. Introduction

- 1.1. The Monetary Authority (“MA”) issued the [*Guideline on Certification of Funds Issued by the Monetary Authority under Schedule 16D to the Inland Revenue Ordinance \(Cap. 112\)*](#) (“Guideline on Certification”) in relation to tax concessions for carried interest under the Inland Revenue Ordinance (“IRO”) on 16 July 2021. The Guideline on Certification sets out the Criteria for Certification and other matters in relation to the MA’s certification of funds for the purposes of Schedule 16D to the IRO (“Certification”).
- 1.2. To apply for Certification, a fund, as the applicant, has to submit to the MA a completed Certification Application Form and an auditor’s report prepared by a certified public accountant (practising) of the Hong Kong Institute of Certified Public Accountants (“HKICPA”) (“practising member”). To facilitate the Inland Revenue Department (“IRD”) in processing any claim for tax concessions, the MA may provide any information and documents submitted by the applicant, including but not limited to the Certification Application Form and the auditor’s report, to the IRD after the applicant has applied to the MA for Certification.
- 1.3. This Guideline sets out the responsibilities of, and the procedures (as listed in **Annex 1**) that should be carried out by, the practising members in preparing the auditor’s report in support of a fund’s application for Certification.
- 1.4. Unless otherwise defined in this Guideline, capitalised terms used in this Guideline have the same meanings given to them in the Guideline on Certification or the IRO as appropriate.

2. Responsibilities of practising members

- 2.1 A practising member shall, in performing an agreed-upon procedures engagement with an engaging party, i.e., the fund or its investment manager as appropriate:
- (a) comply with the [*Hong Kong Standard on Related Services 4400 \(Revised\) Agreed-Upon Procedures Engagements*](#) (“HKSRS 4400 (Revised)”) issued by the HKICPA with respect to the matters set out in Annex 1 to the *Guideline on Auditor’s Report for Application for Certification of Funds Issued by the Monetary Authority for Funds and their Investment Managers* [to add link] (“Auditor’s Report Guideline for Funds and Investment Managers”) on which the agreed-upon procedures are performed;
 - (b) carry out the procedures agreed upon with the engaging party according to this Guideline, and use the information and documents¹ obtained from the responsible party² of the engaging party as the basis for the auditor’s report in accordance with HKSRS 4400 (Revised); and
 - (c) report the findings based on the procedures performed.
- 2.2 For the purposes of the agreed-upon procedures engagement, a practising member shall also comply with the relevant requirements of the HKICPA’s [*Code of Ethics for Professional Accountants*](#) and the independence requirements applicable to audits of financial statements.
- 2.3 Practising members are recommended to report the findings in the manner as outlined in Appendix 1 to the HKICPA’s *Circular on Reporting for Certification of Funds under Schedule 16D to the Inland Revenue Ordinance (Cap. 112)* [to add link]. This Guideline should also be read in conjunction with the Auditor’s Report Guideline for Funds and Investment Managers.

¹ The responsible party of the engaging party should make its best endeavours to provide the information and documents specified in Annex 1 to the Auditor’s Report Guideline for Funds and Investment Managers. If the responsible party is unable to provide such information and documents, it should provide the reason and the suggested alternative information and documents to the MA in writing. If the MA considers such reason and suggested alternative acceptable, the MA will issue to the responsible party a confirmation, which then can be submitted, together with any alternative information and documents as agreed by the MA, to the practising member to perform the relevant procedure(s). In such cases, the practising member should tailor the relevant procedure(s) in accordance with HKSRS 4400 (Revised) based on the alternative information and documents obtained. The practising member is not required to consider whether the alternative information and documents meet the MA’s requirements.

² The responsible party of the fund or its investment manager is:

- (a) a director, company secretary or manager of the company if the fund or the investment manager is a company;
- (b) the general partner if the fund or the investment manager is a partnership;
- (c) the trustee if the fund is a trust; or
- (d) the principal officer of the body of persons if the investment manager is a body of persons.

3. Administrative matters

- 3.1. The MA may amend this Guideline and issue further guidance in relation to the matters in this Guideline as and when necessary.

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Annex 1

1. Procedures to be carried out by the practising member

1.1 Obtain the ownership structures presented in diagrams (“Ownership Structures Diagrams”), showing:

- (a) the description of the selected shares, stocks, debentures, loan stocks, funds, bonds or notes (“Specified Securities”) of, or issued by, a Private Company or an Investee Private Company (as the case may be)³;
- (b) the acquisition date of the Specified Securities by the fund;
- (c) the percentage of the fund’s participation interests or equity interests, directly or indirectly, in the issuer of the Specified Securities, specifying the name and the identity of each entity (e.g., the fund, Special Purpose Entity (“SPE”), Interposed Special Purpose Entity 1/2/3 (“Interposed SPE 1/2/3”), Private Company or Investee Private Company (as the case may be)) as at the date of acquisition and the date of last disposal of the Specified Securities, or the date of declaration of the carried interest⁴, whichever is earlier (“Holding Period”); and
- (d) the following information in respect of each entity in the Ownership Structures Diagrams:
 - principal activity of the entity;
 - place of incorporation of the entity; and
 - entity type, e.g., private company, public company, partnership, etc.

Attach the Ownership Structures Diagrams⁵ as appendices to the auditor’s report.

1.2 Obtain the executed sale and purchase agreement for the fund’s acquisition of the Specified Securities (“Acquisition S&P”). Compare the description and the acquisition date of the Specified Securities by the fund stated in the Ownership Structures Diagrams to those stated in the executed Acquisition S&P obtained.

³ As explained in paragraph 126 of the [Departmental Interpretation and Practice Notes No. 61](#), an investment is considered as an investment in a Private Company / Investee Private Company even if a fund sells the investment in the Private Company / Investee Private Company through an initial public offering, or if a listed company is privatised and later sold as a Private Company / Investee Private Company. As such, when applying for Certification, it is sufficient for a fund to demonstrate that it has invested in a company that satisfied the definition of a Private Company or an Investee Private Company for a certain period of time (i.e., not the entire period) during the Holding Period. Please refer to paragraph 1.4(b) of this Annex for the relevant procedures.

⁴ The date of declaration of the carried interest should be the same day on which such carried interest was received by, or accrued to, the investment manager, whichever is earlier.

⁵ Actual names of the entities should not be disclosed in the auditor’s report. The practising member should redact the names of the entities in the Ownership Structures Diagrams and describe the entities with reference to their identity (e.g., the fund, SPE, Interposed SPE 1/2/3, Private Company or Investee Private Company (as the case may be)) when referring to any entity in the auditor’s report and the Ownership Structures Diagrams attached to the auditor’s report. Please refer to Annex 2 to the Auditor’s Report Guideline for Funds and Investment Managers for an illustration of the Ownership Structures Diagrams to be obtained from the responsible party of an engaging party.

- 1.3 Obtain the executed sale and purchase agreement for the disposal of the Specified Securities, or for the last disposal if there were more than one disposals (“Disposal S&P”) and enquire the effective date of the executed Disposal S&P. Report the effective date of the executed Disposal S&P enquired and compare it to that stated in the executed Disposal S&P obtained.
- 1.4 For each of the SPEs, Interposed SPEs and issuer of the Specified Securities in the Ownership Structures Diagrams:
- (a) Obtain a copy of the entity’s audited financial statements for the financial year in which the carried interest was declared (“Declaration Year”) and compare the principal activity of the entity stated in the Ownership Structures Diagrams to that stated in the audited financial statements for the Declaration Year.

If the responsible party of the engaging party cannot provide the audited financial statements for the Declaration Year, the practising member should perform procedures 1.4(a)(i) to (v) as appropriate, until the principal activity of each of the entities specified in the Ownership Structures Diagrams has been compared to the relevant documents provided by the responsible party. The applicability of all or some of the procedures set out in 1.4(a)(i) to (v) should be determined based on the actual circumstances of the engagement.

- (i) If the entity did not prepare the audited financial statements for the Declaration Year but has prepared the audited financial statements for the year preceding the Declaration Year, obtain a copy of the audited financial statements for the year preceding the Declaration Year and compare the principal activity of the entity stated in the Ownership Structures Diagrams to that stated in the audited financial statements for the year preceding the Declaration Year.
- (ii) If the principal activity of the entity was not stated in the audited financial statements for the Declaration Year or in the audited financial statements for the year preceding the Declaration Year, obtain a written representation⁶ about the entity’s principal activity for the Declaration Year and compare the principal activity of the entity stated in the Ownership Structures Diagrams to that stated in the written representation obtained.
- (iii) If the entity was exempt from audit pursuant to any overseas legislation for the Declaration Year and the year preceding the

⁶ Written representations obtained in connection with the agreed-upon procedures should state the actual name of the entity and the entity’s designated name as referred to in the Ownership Structures Diagrams. Written representations provided by the responsible party of the engaging party should not be attached to the auditor’s report. Please refer to Annex 3 to the Auditor’s Report Guideline for Funds and Investment Managers for an illustration of the written representations.

Declaration Year, obtain a written representation⁶ stating the same (specifying the overseas legislation) and the entity's principal activity for the Declaration Year, and compare the principal activity of the entity stated in the Ownership Structures Diagrams to that stated in the written representation obtained.

- (iv) If the entity was not exempt from audit by law for the Declaration Year or the year preceding the Declaration Year and did not prepare the audited financial statements for the Declaration Year or the year preceding the Declaration Year, obtain a written representation⁶ stating the same and the entity's principal activity for the Declaration Year, and compare the principal activity of the entity stated in the Ownership Structures Diagrams to that stated in the written representation obtained.
 - (v) If the engaging party cannot provide the audited financial statements prepared by the entity for the Declaration Year or the year preceding the Declaration Year, obtain a written representation⁶ stating the same, the reason for not being able to obtain the audited financial statements and the entity's principal activity for the Declaration Year, and compare the principal activity of the entity stated in the Ownership Structures Diagrams to that stated in the written representation obtained.
- (b) If the entity is a company, obtain a copy of the entity's certificate of incorporation and compare its place of incorporation stated in the Ownership Structures Diagrams to that stated in the certificate of incorporation obtained.
- (i) If the entity was incorporated in Hong Kong, obtain a copy of the entity's Annual Return (Form NAR1) previously submitted to the Companies Registry which was made up during the Holding Period and indicated that the entity is a Private Company, and compare the entity's company type (i.e., private company) stated in the Ownership Structures Diagrams to the Form NAR1 obtained. Alternatively, obtain a copy of the Notice of Change of Company Status (Form NAA4) previously submitted to the Companies Registry indicating that the effective date of alteration of the entity's company status falls within the Holding Period and check whether the entity's company status as stated on the Form NAA4 obtained concerns a change from a private company to a public company or from a public company to a private company.

It is not necessary to perform procedure 1.4(b)(ii) if all the entities in the Ownership Structures Diagrams were incorporated in Hong Kong as covered by procedure 1.4(b)(i). Otherwise, the practising member

should perform procedure in 1.4(b)(ii) until all the entities in the Ownership Structures Diagrams are covered by procedures 1.4(b)(i) and/or (ii).

- (ii) If the entity was not incorporated in Hong Kong, obtain a written representation⁶ stating that the entity is not allowed to issue any invitation to the public to subscribe any of its shares or debentures at any one point in time during the Holding Period.

1.5 Obtain other written representations from the engaging party where necessary.

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