

PN 810.1 (Revised)
Issued September 2019; revised May 2022*

Effective for engagements beginning
on or after 15 December 2022

Practice Note 810.1 (Revised)

Licensed Insurance Broker Companies – Compliance with the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules

* PN 810.1 (Revised) has been updated for conforming and consequential amendments (“amendments”) as a result of the new and revised quality management standards. The amendments will be effective for engagements beginning on or after 15 December 2022. The effective date of the amendments does not amend or override the effective date of HKSQM 1.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

LICENSED INSURANCE BROKER COMPANIES –
COMPLIANCE WITH THE INSURANCE (FINANCIAL AND
OTHER REQUIREMENTS FOR LICENSED INSURANCE
BROKER COMPANIES) RULES

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**PRACTICE NOTE
810.1 (REVISED)
LICENSED INSURANCE BROKER COMPANIES –
COMPLIANCE WITH THE INSURANCE (FINANCIAL AND
OTHER REQUIREMENTS FOR LICENSED INSURANCE
BROKER COMPANIES) RULES**

*(Issued 30 September 2019; revised May 2022;
Effective for engagements beginning on or after 15 December 2022)*

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Practice Note (PN) 810.1 (Revised), *Licensed Insurance Broker Companies - Compliance with the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules* should be read in the context of the *Preface to Hong Kong Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements* which sets out the application and authority of PNs.

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The purpose of Practice Notes issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) is to assist the auditor in applying Hong Kong Engagement Standards of general application to particular circumstances and industries.

Practice Notes are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in Hong Kong Engagement Standards. This Practice Note provides guidance to assist the auditor to fulfill the objectives of the engagement. The auditor should be prepared to explain departures when called upon to do so.

Introduction

1. In this Practice Note (“PN”) all the sections mentioned below are in respect of the Insurance Ordinance (“the Ordinance”) unless otherwise stated. The relevant provisions of the Insurance Companies (Amendment) Ordinance 2015 (“Amendment Ordinance”) came into operation on 26 June 2017 and is implemented in three stages. In line with the overhaul of the insurance intermediaries regulatory framework effected by the passing of the Amendment Ordinance, the Insurance Authority (“IA”) has taken over the regulation of insurance broker companies from The Hong Kong Confederation of Insurance Brokers and Professional Insurance Brokers Association and becomes the sole regulator to license and regulate all insurance intermediaries in Hong Kong. The corresponding provisions of the Amendment Ordinance took effect on 23 September 2019 (“commencement date”). Under the new regime for insurance intermediaries, any company which wishes to apply to the IA for an insurance broker company licence, or to renew such licence, among other things, will have to be able to demonstrate its ability to comply, or continue to comply, with the rules made by the IA under section 129 of the Ordinance.
2. The Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules (“Rules”) were made by the IA under section 129 of the Ordinance and the main objective of these Rules is, for the purposes of the new sections 53F(4), 64T(2), 64ZA(4)(d), 64ZV(8)(e) and 73(1) (“New Sections”) of the Ordinance, to prescribe the financial and other requirements for licensed insurance broker companies in relation to (a) capital and net assets; (b) professional indemnity insurance; (c) keeping of separate client accounts; (d) keeping of proper books and accounts; and (e) submission of audit and related information. The Rules took effect on the commencement date (i.e. 23 September 2019), replacing the relevant provisions in the Guideline on Minimum Requirements for Insurance Brokers (“Guideline”) issued by the IA under the outgoing self-regulatory regime for insurance intermediaries.
3. Under section 2 of the Ordinance, a licensed insurance broker company means a company which is granted a licence under section 64ZA to carry on:
 - (a) regulated activities specified in section 1(a) of Part 1 of Schedule 1A to the Ordinance in one or more lines of business, as an agent of any policy holder or potential policy holder; and
 - (b) regulated activities specified in section 1(b), (c) and (d) of Part 1 of Schedule 1A to the Ordinance in one or more lines of business.

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Section 1 of Part 1 of Schedule 1A to the Ordinance specifies the following as an act of regulated activity:

- (a) the act of negotiating or arranging a contract of insurance;
 - (b) the act of inviting or inducing, or attempting to invite or induce, a person to enter into a contract of insurance;
 - (c) the act of inviting or inducing, or attempting to invite or induce, a person to make a material decision;
 - (d) the act of giving regulated advice.
4. Under the Ordinance, a licensed insurance broker company, among other things, is subject to specified rules made by the IA under section 129 of the Ordinance that set out the requirements (“requirements”) in relation to:
- (i) the capital and net assets of a licensed insurance broker company;
 - (ii) the professional indemnity insurance (“PII”) taken out by a licensed insurance broker company;
 - (iii) the keeping of separate client accounts by a licensed insurance broker company; and
 - (iv) the keeping of proper books and accounts by a licensed insurance broker company.
5. The IA, before granting an insurance broker company licence under section 64ZA of the Ordinance, or renew such licence under section 64ZV of the Ordinance, is required to satisfy himself that, among other things, (a) the applicant is a fit and proper person to carry on regulated activities in the lines of business concerned; (b) each director of the applicant and the controller in relation to the applicant (if any) are fit and proper persons to be associated with the carrying on of regulated activities in those lines of business; and (c) the applicant will be able to comply with the rules made by the IA under section 129 of the Ordinance.
6. In respect of the handling of client monies, a licensed insurance broker company is also required to comply with the requirements under section 71 of the Ordinance, separating client monies from the broker company’s monies and pay client monies into the client account as soon as practicable after receiving them.

Under section 81(1) of the Ordinance, the IA may exercise disciplinary powers against a person if the IA is of the opinion that, at the time when the person is or was a regulated person, the person is or was not a fit and proper person or is or was guilty of misconduct (including a contravention of a provision of the Ordinance). Under the Guideline on “Fit and Proper” Criteria For Licensed Insurance Intermediaries issued by the IA¹, the IA will consider the fitness and properness of a licensed insurance broker company with regard to the compliance of the requirements in relation to capital, net assets, professional indemnity insurance, and keeping of separate client accounts and proper books and accounts as set out in the Ordinance and any rules made under section 129 of the Ordinance. The disciplinary powers available to the IA are provided in section 81(4) of the Ordinance, including revoking licenses, suspending licenses or imposing pecuniary penalty.

The auditor should read and understand the Ordinance, rules, guidelines, circulars and other regulatory instruments on the IA’s website² before commencing work.

¹ Available at: https://www.ia.org.hk/en/legislative_framework/files/Eng_GL23_FPP.pdf

² Available at: https://www.ia.org.hk/en/supervision/reg_ins_intermediaries/regulatory_instruments.html

Reporting requirements

7. Section 73(1) of the Ordinance requires a licensed insurance broker company within 6 months after the end of each financial year to provide the IA with all of the following:
 - (a) a copy of the audited profit and loss account for that year;
 - (b) a copy of the audited income and expenditure account for that year;
 - (c) a copy of the audited balance sheet as at the end of that year;
 - (d) an auditor's report on the financial statements;
 - (e) an auditor's report stating whether the auditor is of the opinion that the company has continued to comply with rules made under section 129 that set out the requirements—
 - (i) in relation to the capital and net assets of a licensed insurance broker company;
 - (ii) in relation to the PII taken out by a licensed insurance broker company;
 - (iii) in relation to the keeping of separate client accounts by a licensed insurance broker company; and
 - (iv) in relation to the keeping of proper books and accounts by a licensed insurance broker company;
 - (f) any other information that is prescribed by rules made under section 129.

Scope

8. The purpose of this PN is to provide guidance on the report by the auditor referred to in paragraph 7(e) above which has come into operation on 23 September 2019. Key revisions to the requirements as a result of the corresponding provisions of the Ordinance under the statutory licensing regime for insurance intermediaries and Rules are double underlined in the respective parts of this PN for ease of reference.
9. It is emphasized that this PN does not cover audits of financial statements of licensed insurance broker companies and the auditor should ensure that audits of financial statements should be conducted in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. An auditor should refer to the guidance in paragraph 54 of PN 620.2, *Communication between the Auditor and the Insurance Authority* on sending a written request to the IA to enquire whether it has any matter to inform the auditor.
10. An auditor undertaking an engagement with reference to this PN would undertake a limited assurance engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ("HKSAE 3000 (Revised)") to enable the auditor to express a conclusion whether, on the basis of the work undertaken, anything has come to the auditor's attention that causes the auditor to believe that the matters in respect of which the auditor is required to report (as further explained in this PN) have not been complied with.
11. As set out in paragraph 4 above, a licensed insurance broker company is subject to specified rules made by the IA under section 129 of the Ordinance. Details of these requirements are set out in paragraphs 12 to 52. If any breaches of the requirements in the Rules or Ordinance are noted by the auditor, either on the dates chosen for testing or on other dates, wording of the report by the auditor would be modified to give a specified report on whether or not they complied on the dates tested, and a statement that based on information provided to the auditor he/she is aware of breaches on other dates during the year. Examples of suggested modified wording where a licensed insurance broker company has not complied with the requirements are provided in Appendix 3.

Requirements for compliance by licensed insurance broker companies

Capital and net assets

12. Subject to the transitional arrangements of the Rules set out in paragraph 49 below, a licensed insurance broker company must at all times:
- (a) maintain a paid-up share capital of not less than \$500,000 (Rule 3 of the Rules).
 - (b) maintain net assets of not less than \$500,000. The amount of net assets must be calculated in accordance with applicable accounting standards, and must—
 - (i) exclude intangible assets from the aggregate of the company's assets; and
 - (ii) exclude from the aggregate of the company's liabilities, on-balance sheet liabilities arising from a lease agreement entered into by the licensed insurance broker company in respect of any premises, up to an amount capped by the maximum value of its intangible assets arising from the same lease agreement.
- (Rule 4 of the Rules)
13. Under Rule 2(1) of the Rules, *applicable accounting standards*, in relation to a licensed insurance broker company, means –
- (a) if the company is incorporated in Hong Kong, the accounting standards generally accepted in Hong Kong; and
 - (b) if the company is a non-Hong Kong company as defined by section 2(1) of the Companies Ordinance (Cap. 622), the accounting standards generally accepted in Hong Kong or in the jurisdiction of the place of incorporation of the company, as the company may elect.

Professional indemnity insurance

14. A licensed insurance broker company must maintain a PII policy that provides coverage for claims made against the company for liabilities arising from breaches of duty in the course of carrying on its regulated activities. The PII policy must have the following limit of indemnity for any one claim and in any one policy period of 12 months:
- (a) Must not be less than the greater of:
 - (i) 2 times the aggregate amount of the licensed insurance broker company's insurance brokerage income in the 12 consecutive months immediately before the commencement date of the policy period under its PII policy, up to a maximum of \$75,000,000; or
 - (ii) \$3,000,000.
 - (b) In relation to a licensed insurance broker company which is in its first 12 months of operation as a licensed insurance broker company, the limit of indemnity must not be less than \$3,000,000.
- (Rules 5(1), (2) and (3) of the Rules)
15. The PII policy referred to in paragraph 14 above must include a provision for at least one automatic reinstatement which, in the event of the limit of indemnity under the policy being reduced by losses or claims, operates to reinstate the limit of indemnity to an amount not less than the amount determined in accordance with paragraph 14(a) or (b) above (Rule 5(4) of the Rules).
16. Subject to the transitional arrangements of the Rules set out in paragraph 50 below, the deductible amount under the PII policy referred to in paragraph 14 above must not be more

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than 50% of the company's net assets as at the end of its financial year immediately before the commencement date of the policy period under the policy (Rule 5(5) of the Rules).

17. In relation to a licensed insurance broker company referred to in paragraph 14 (b) above, the deductible amount under the PII policy referred to in paragraph 14 above must not be more than 50% of the company's paid-up share capital as at the commencement date of the policy period under the policy (Rule 5(6) of the Rules).
18. The auditor might find it difficult to report whether a licensed insurance broker company has maintained a PII policy with a minimum limit of indemnity and maximum deductible, for example, in the case of paragraph 14(a)(i) above, where the 12 consecutive months immediately before the commencement date of the policy period under its PII insurance cover do not fall within a financial year.
19. An auditor faced with the above difficulty may request a copy of the calculation of the historical insurance brokerage income under review from the licensed insurance broker company and perform procedures over the company's calculation. In carrying out the procedures, the auditor may wish to consider the following:
 - a. whether the calculation of historical insurance brokerage income is based on management accounts regularly prepared for the purpose of management and how reliable are these management accounts and whether the management accounts can be reconciled to historical audited financial information;
 - b. whether the calculation of historical insurance brokerage income is based on accounting policies consistent with the basis used in the audited financial statements;
 - c. whether the calculation of historical insurance brokerage income under review has been prepared on a basis consistent with that of prior years; and
 - d. the arithmetical accuracy of the calculation and the supporting information.
20. Under Rule 2(1) of the Rules, insurance brokerage income, in relation to a licensed insurance broker company, means the gross income derived from the business of carrying on regulated activities by the company.

Keeping of separate client accounts

21. A licensed insurance broker company that receives or holds client monies must maintain at least one client account (Rule 6(1) of the Rules).
22. The client account must be an account maintained with an authorized institution in the name of the licensed insurance broker company in the title of which the word "client" appears (Rule 6(2) of the Rules).
23. A licensed insurance broker company must give written notice to the authorized institution with which the client account is maintained as referred to in paragraph 21 above, stating that the client account is maintained by the company pursuant to section 71 of the Ordinance (Rule 6(3) of the Rules).
24. A licensed insurance broker company must keep proper records of the notice referred to in paragraph 23 above (Rule 6(4) of the Rules).
25. The monies specified in section 71(2) of the Ordinance, which a licensed insurance broker company is required to pay into a client account as soon as practicable after receiving them include –

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- (a) monies received by the company from or on behalf of a policy holder or potential policy holder as premium payable to an insurer under a contract of insurance arranged by the company;
- (b) monies received by the company from an insurer, a reinsurer, an insurance intermediary or any other party for the purpose of or relating to the settlement of a claim under a contract of insurance;
- (c) monies received by the company from or on behalf of a policy holder or potential policy holder for any purposes which are incidental to the carrying on of regulated activities by the company in relation to the policy holder or potential policy holder; and
- (d) other monies arising from the ordinary transactions of its business of carrying on regulated activities as specified in paragraph 29 below.

(Rule 6(5) of the Rules)

- 26. A licensed insurance broker company may, for the purpose of complying with paragraph 21 above, pay into a client account such monies as may be necessary for the opening or maintenance of the account and such monies are taken to be client monies for this purpose (Rule 6(6) of the Rules).
- 27. No monies other than monies described under paragraphs 25 and 26 above may be paid into a client account maintained by a licensed insurance broker company (Rule 6(7) of the Rules).
- 28. A licensed insurance broker company may only make the following withdrawals from a client account –
 - (a) monies required to be paid to an insurer, a reinsurer or an insurance intermediary as premium under a contract of insurance arranged by the company;
 - (b) monies required to be paid to a policy holder, potential policy holder, a claimant or any other party who is entitled to receive the monies for the purpose of or relating to the settlement of a claim under a contract of insurance;
 - (c) monies drawn in accordance with written authority of a policy holder or potential policy holder;
 - (d) monies required to be paid by or on behalf of a policy holder or potential policy holder for any purposes which are incidental to the carrying on of regulated activities by the company in relation to the policy holder or potential policy holder;
 - (e) interest earned on monies in the client account in accordance with section 71(5) of the Ordinance;
 - (f) monies which are paid into the client account by mistake or accident and any interest earned on those monies; and
 - (g) other monies arising from the ordinary transactions of its business of carrying on regulated activities specified in paragraph 29 below.

(Rule 6(8) of the Rules)

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29. The other monies arising from the ordinary transactions of the licensed insurance broker company's business of carrying on regulated activities referred to in paragraphs 25(d) and 28(g) above are –
- (a) premiums, renewal premiums, additional premiums and return premiums of all kinds;
 - (b) claims and other monies due under contracts of insurance;
 - (c) refunds to policy holders;
 - (d) policy loans and associated interests;
 - (e) fees, charges and levies relating to contracts of insurance; and
 - (f) premium discounts, commissions and brokerage.

(Rule 6(9) of the Rules)

30. Paragraph 27 above does not apply to monies which are paid by mistake or accident into a client account provided that the licensed insurance broker company takes remedial action promptly on discovery of the payment which was made by mistake or accident (Rule 6(10) of the Rules).

31. A licensed insurance broker company which holds or receives client monies must –

(a) at least once a calendar month compare the total of the ledger balances of client monies with the total of –

(i) the balances shown on the bank statements and passbooks (after allowing for all unrepresented items) of all client accounts; and

(ii) any client monies held by the company that have not been deposited into a client account; and

(b) as at the same date when a comparison is made pursuant to paragraph 31(a) above, prepare a reconciliation statement, which must show the cause of the difference, if any.

(Rule 6(11) of the Rules)

32. These requirements are designed to prevent a licensed insurance broker company from improperly handling client monies entrusted to it. In performing the engagement, the auditor should have a sufficient understanding of the internal controls relating to client monies.

The auditor would, in the course of conducting the limited assurance engagement, exercise professional judgment in determining whether there is undue delay by a licensed insurance broker company in depositing client monies into the client account.

The auditor should exercise professional judgment in considering whether additional procedures in addition to those set out in Appendix 1 are necessary for checking of client accounts and client monies.

33. It should be noted that section 71(1) of the Ordinance requires the licensed insurance broker company to keep client monies in a client account separate from his own monies and, under section 71(4), a licensed insurance broker may use client monies relating to a client only for the purposes of that client; the law does not require a licensed insurance broker company to keep separate accounts for individual clients. Although the Ordinance does not require licensed insurance broker companies to keep separate accounts for individual clients, it is of utmost importance that the company maintains records of the balances due from/to individual clients and reconciles these balances (on a client by client basis) sufficiently regularly to ensure client monies are properly kept in client accounts and client monies relating to a client are used only for the purposes of that client (see section 3 “Keeping of separate client accounts” of Appendix 1). While it is management’s responsibility to ensure that balances due from/to individual clients are reconciled sufficiently regularly, the auditor should base on the size and complexity of the licensed insurance broker company’s operations and use professional judgement when assessing this.

Keeping of proper books and accounts

34. A licensed insurance broker company must, in relation to its business which constitutes the carrying on of regulated activities –
- (a) keep, where applicable, such accounting and other records (including records relating to the assets or affairs of the company’s clients) as are sufficient to –
 - (i) explain, and reflect the financial position and operation of, such business;
 - (ii) enable financial statements that give a true and fair view of its financial position and financial performance to be prepared from time to time;
 - (iii) account for all client monies that it receives or holds; and
 - (iv) demonstrate –
 - (A) compliance by it with the Rules; and
 - (B) that there is no contravention of section 71(1), (3), (4), (5) and (6) of the Ordinance;
 - (b) keep those records in such manner as will enable an audit to be conveniently and properly carried out; and
 - (c) make entries in those records in accordance with applicable accounting standards.
- (Rule 7(1) of the Rules)
35. A licensed insurance broker company must keep all records in writing in the Chinese or English language or in such a manner as to enable them to be readily accessible and readily converted into written form in the Chinese or English language (Rule 7(2) of the Rules).
36. A licensed insurance broker company must retain the records that are required to be kept under the Rules for at least 7 years (Rule 7(3) of the Rules).
37. It should be noted that the relevant provisions of the Companies Ordinance (Cap. 622) also require books of account to be kept for a period of 7 years.

Submission of annual audited financial statements and reports by the auditor on compliance with the requirements

38. A licensed insurance broker company must prepare the financial statements to be provided to the IA under section 73(1) of the Ordinance in accordance with applicable accounting standards (Rule 8(1) of the Rules).

39. The financial statements provided by a licensed insurance broker company under section 73(1) of the Ordinance in relation to a financial year must include the company's—

(a) insurance brokerage income for the financial year distinguishing between general business and long term business;

(b) aggregate balances of cash held in its client accounts as at the end of the financial year; and

(c) insurance premiums payable as at the end of the financial year.

(Rule 8(2) of the Rules)

40. Any document (except an auditor's report) provided by a licensed insurance broker company under section 73(1) of the Ordinance must be—

(a) approved by the directors of the company; and

(b) signed —

(i) by 2 directors of the company on its directors' behalf; or

(ii) in the case of the company having only one director, by the director.

(Rule 8(3) of the Rules)

41. The auditor's report on the financial statements provided by a licensed insurance broker company under section 73(1)(d) of the Ordinance in relation to a financial year must contain statements stating whether the financial statements, in the auditor's opinion, give a true and fair view of -

(a) the financial position of the company as at the end of the financial year; and

(b) the financial performance of the company for the financial year.

(Rule 9(1) of the Rules)

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42. The auditor's report provided by a licensed insurance broker company under section 73(1)(e) of the Ordinance in relation to a financial year must contain statements stating whether, in the auditor's opinion, the company has continued to comply with the requirements under the Rules and the relevant provisions of the Ordinance in relation to –
- (a) the capital and net assets of the company;
 - (b) the PII taken out by the company;
 - (c) the keeping of separate client accounts by the company; and
 - (d) the keeping of proper books and accounts by the company,

as at the end of the financial year and 2 such other dates in the financial year as the auditor may elect, provided that the intervening period between those 2 dates must not be shorter than 3 months.

(Rule 9(2) of the Rules)

43. A licensed insurance broker company must, within 6 months after the end of each financial year, provide the IA with the items as set out in paragraph 7 of this PN.
44. A licensed insurance broker company is required to continually comply with the requirements. In order to provide limited assurance, the auditor should obtain sufficient, appropriate evidence, as set out in paragraphs 48 to 60 in HKSAE 3000 (Revised), that the requirements have been met on a continuous basis.
45. The nature, timing and extent of procedures to be carried out are determined by the auditor's professional judgment in each individual case. It should be borne in mind when carrying out the tests that omissions from the books may be just as important as items included in them. The auditor may obtain evidence by performing procedures recommended in Appendix 1.

For the purposes of the auditor's reporting on compliance with the requirements by a licensed insurance broker company, the auditor needs to perform procedures as of 3 dates at the minimum. These 3 dates are as at the end of the financial year and 2 such other dates in the financial year as the auditor may elect, provided that the intervening period between those 2 dates must not be shorter than 3 months. The auditor may elect more than 2 other dates in the financial year if the auditor considers it necessary in order to ensure compliance throughout the financial year.

46. If anything is discovered which indicates that the requirements are not being complied with by the licensed insurance broker company, the auditor's responsibilities extend no further than stating in the auditor's report that the requirements have not been complied with and reporting the matter to the IA as soon as practicable in accordance with section 53F (further guidance on section 53F can be found in PN 620.2 (Revised), *Communication between the Auditor and the Insurance Authority*). Examples of suggested modified wording for the report by the auditor are attached in Appendix 3.

The auditor is not expected to give details of the breaches nor to state the period over which the breach occurred. To report such additional information with any degree of completeness and accuracy would require considerable additional work by the auditor. If the IA requires such information, this should be considered a separate assignment.

47. Paragraph 78 of HKSAE 3000 (Revised) requires the auditor to consider, whether any matter has come to the attention of the auditor that is to be communicated to those charged with governance. Accordingly, the auditor should consider reporting the breaches noted from procedures performed to those charged with governance.

Transitional arrangements

48. Transitional arrangements in paragraphs 49 to 52 below only apply to “specified insurance broker company”, i.e. a company which was immediately before the commencement date, registered with an approved broker body as a member, and regarded as having been granted an insurance broker company licence under section 66 of Schedule 11 to the Ordinance on the commencement date. A licensed insurance broker company, other than a specified insurance broker company, is subject to the minimum amount of paid-up share capital and net assets of HK\$500,000 from the commencement date.

Share capital and net assets

49. For the period from the commencement date to 31 December 2023, the amount of paid-up share capital and net assets which a specified insurance broker company must maintain at all times pursuant to paragraph 12 of this PN respectively are –

- (a) for the period that begins on the commencement date and ends on 31 December 2021, not less than \$100,000; and
- (b) for the period that begins on 1 January 2022 and ends on 31 December 2023, not less than \$300,000.

(Rule 2 of the Schedule to the Rules)

Professional indemnity insurance

50. Paragraph 16 of this PN does not apply to a specified insurance broker company for the period that begins on the commencement date and ends on 31 December 2023 (Rule 3 of the Schedule to the Rules).

Client monies reconciliation

51. Paragraph 31 of this PN does not apply to a specified insurance broker company for 6 months beginning on the commencement date (Rule 4 of the Schedule to the Rules).

Audited financial statements

52. Paragraph 39 of this PN does not apply to the audited financial statements of a specified insurance broker company for a financial year beginning before 1 January 2021 (Rule 5 of the Schedule to the Rules).

Appendix 1

Objectives and recommended procedures for the purpose of reporting on compliance with the Rules

The nature and extent of procedures to be carried out for the purposes of reporting on compliance by a licensed insurance broker company with the Rules are determined by the auditor's professional judgement in each individual case. The list given in this appendix is not exhaustive, nor is it intended that all the procedures suggested apply to every reporting engagement.

When conducting these suggested or other procedures pursuant to reporting on the licensed insurance broker company's compliance with the Rules, it is recommended that the auditor is guided by HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. In accordance with HKSAE 3000 (Revised), the auditor determines the nature, timing and extent of procedures to be carried out and carry out those procedures so as to ensure sufficient appropriate evidence is obtained on which to base the conclusions, and document matters which are important to providing evidence to support that conclusion. For the purposes of the auditor's reporting on the compliance with the Rules by the licensed insurance broker company, the auditor needs to perform procedures as of 3 dates at the minimum. These 3 dates are as at the end of the company's financial year and 2 such other dates in the company's financial year as the auditor may elect, provided that the intervening period between those 2 dates must not be shorter than 3 months. The auditor may elect more than 2 other dates in the company's financial year if the auditor considers it necessary in order to ensure compliance throughout the financial year.

If, after applying the recommended or other procedures, the auditor becomes aware of non-compliance with the Rules, the auditor's responsibility, after considering the reporting requirements to those charged with governance discussed in paragraph 46 of this PN, extends no further than stating in the report that the auditor is aware of non-compliance by the company with the Rules and reporting the matter to the IA as soon as practicable in accordance with section 53F (further guidance on section 53F can be found in PN 620.2 (Revised), *Communication between the Auditor and the Insurance Authority*). For examples of suggested modified wording for the report by the auditor, refer to Appendix 3 to this PN.

The Rules are in respect of:

1. share capital;
2. net assets;
3. PII;
4. keeping of separate client accounts; and
5. keeping of proper books and accounts.

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1. Capital and net assets

Objective	Recommended procedure
i) To establish whether paid-up share capital meets the requirements under the Rules.	Obtain share register, annual return or returns of allotment and inspect whether paid-up share capital met the required amount ³ throughout the reporting period.
ii) To establish whether net assets meet the requirements under the Rules.	a) Obtain the opening and closing balances of net assets in the financial statements and inspect whether the licensed insurance broker company met the required amount ³ throughout the reporting period.
	b) Where either the opening or closing net asset value is close to the minimum required amount, consider checking management accounts during the period to establish whether the licensed insurance broker company has breached the requirements.
	c) Where the management accounts are used as a source of audit evidence as to whether the net assets meet the required amount, consideration should be given to the method of preparation of those accounts and any adjustments necessary to reflect the accounting standards generally accepted in Hong Kong, before deciding to rely on them.

Guidance on capital and net assets requirements under the Rules is set out in paragraphs 12 and 13 of this PN.

³ For the period from the commencement date (i.e. 23 September 2019) to 31 December 2023, a specified insurance broker company (i.e. a company which was immediately before the commencement date, registered with an approved broker body as a member, and regarded as having been granted an insurance broker company licence under section 66 of Schedule 11 to the Ordinance on the commencement date) must maintain at all times the following minimum amount of paid-up share capital and net assets:

- From the commencement date to 31 December 2021: HK\$100,000
- From 1 January 2022 to 31 December 2023: HK\$300,000
- From 1 January 2024 onwards: HK\$500,000

A licensed insurance broker company, other than a specified insurance broker company, is subject to the minimum amount of paid-up share capital and net assets of HK\$500,000 from the commencement date.

2. Professional indemnity insurance

Objective	Recommended procedure
<p>i) To establish whether the PII cover meets the requirements under the Rules.</p>	<p>a) Physically inspect the PII policy noting in particular the commencement date of the policy⁴ and the limit of cover afforded. Determine whether the policy was in force throughout the period under review.</p> <p>b) Obtain details of the relevant insurance brokerage income⁵ and thereby determine the minimum level of PII required. Compare this with the actual cover to determine whether the level of cover is adequate.</p> <p>Where only one policy is in effect during the year the procedures need only be carried out once. However, if more than one policy has been in effect during the year, for example where the period of cover does not coincide with the financial year, or where the licensed insurance broker company changes insurer during the financial year, it may be necessary to carry out the recommended procedures more than once, so that evidence is obtained in respect of the adequacy of the PII cover in force throughout the period under review.</p>
<p>ii) To establish whether the policy provides for at least one automatic reinstatement which, in the event of the limit of indemnity under the policy being reduced by losses or claims, operates to reinstate the limit of indemnity not less than the required amount.</p>	<p>Inspect the policy document to establish whether at least one automatic reinstatement is included in the terms of the policy according to the requirements under the Rules. Where there have been any material claims during the year, obtain written evidence of any required reinstatement.</p>
<p>iii) To establish whether the deductible is:</p> <ul style="list-style-type: none"> - not more than 50% of the company's net assets as at the end of its financial year immediately before the commencement date of the policy period under the policy; or - not more than 50% of the company's paid-up share capital as at the commencement date of the policy period under 	<p>Obtain the audited financial statements for the financial year immediately before the commencement date of the policy period under the policy, and determine whether the deductible exceeds the requirements.</p> <p>If the company's audited financial statements for the financial year immediately before the commencement date of the policy period under the policy are not yet available, obtain the company's management accounts for the financial year immediately before the commencement date of the policy period under the policy, and determine whether the deductible exceeds the requirements. For this purpose, the management accounts should be appropriately adjusted where required in terms of the applicable financial reporting framework.</p>

⁴ The commencement date of the policy includes the annual renewal of the PII cover maintained by the licensed insurance broker company.

⁵ Under Rule 2 of the Rules, insurance brokerage income in relation to a licensed insurance broker company means the gross income derived from the business of carrying on regulated activities by the company.

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the policy if the company is in its first 12 months of operation as a licensed insurance broker company.	
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Guidance on PII requirements under the Rules is set out in paragraphs 14 to 20 of this PN.

3. Keeping of separate client accounts

Procedures (ii) to (vi) apply to licensed insurance broker companies that are required to maintain at least one separate client account under Rule 6(1).

Objective	Recommended procedure
<p>i) To establish whether the licensed insurance broker company must maintain at least one “client account” with an authorised institution in the name of the licensed insurance broker company in the title of which the word “client” appears.</p>	<p>Where management represents that no separate client account is kept because the licensed insurance broker company did not receive or hold client monies during the reporting period,</p> <p>(a) perform necessary procedures to corroborate management’s representation (e.g. for contracts of insurance arranged by the company, obtain understanding over the settlement of insurance premiums to insurers and reinsurers, and the settlement of claims, refunds and other monies to policy holders; scan records of receipts and/or payments to determine whether the company received or held client monies during the reporting period); and</p> <p>(b) seek management’s confirmation that the licensed insurance broker company did not receive or hold client monies during the reporting period. This may be achieved by way of a written representation from management included in the management representation letter in relation to the engagement. General guidance on management’s representations is set out in paragraphs 56 to 60 and A137 to A140 of HKSAE 3000 (Revised).</p>
<p>ii) To establish whether the licensed insurance broker company maintained at least one “client account” with an authorized institution in the name of the licensed insurance broker company in the title of which the word “client” appears.</p>	<p>Obtain documentary evidence such as bank statements to determine whether there is in existence at least one “client account” in accordance with the requirements under the Rules.</p>
<p>iii) To establish whether the provisions of section 71 of the Ordinance have been notified to an authorized institution with which the “client account” is maintained.</p>	<p>Obtain documentary evidence of the notification to determine whether it is sufficient for the provisions of section 71 of the Ordinance.</p>
<p>iv) To establish whether the licensed insurance broker company keeps client monies in a separate account from his own monies, performs reconciliations with sufficient</p>	<p>a) Enquire with management procedures in place to ensure that client monies are kept separately from the licensed insurance broker company’s own monies and client monies relating to a client are used only for the purposes of that client. Perform sample testing to establish whether the controls and procedures are operating effectively and consider the adequacy of such procedures and controls.</p>

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<p>regularity and whether client monies relating to a client are used only for the purposes of that client.</p>	<p>While it is management’s responsibility to ensure that balances due from/to individual clients are reconciled sufficiently regularly, the auditor should base on the size and complexity of the broker’s operations and use professional judgement when assessing this.</p> <p>In a situation where the management represents that there is no insurance brokerage activity in the reporting period, perform necessary procedures to corroborate management’s representation (e.g. scan records of receipts and/or payments; obtain understanding of client’s business).</p> <p>b) On a sample basis, test reconciliations between the monies in the client account and the insurance broking debtors and creditors (at an individual client level) to determine whether there is any deficiency in the client account which would indicate that client monies relating to a client are not used only for the purposes of that client.</p> <p>c) For a sample of transactions selected both from the bank statements and from the insurance broking ledgers, check to establish whether those transactions made through the client account fall within the scope of the permitted deposits and withdrawals and whether transactions recorded in the insurance broking ledgers, which relate to client monies and should be reflected in the client account, are included therein. Refer to paragraphs 25 to 30 of the PN for additional guidance.</p> <p>d) Scan client accounts for the whole period for potentially unusual items, e.g. round sum transfers, regular frequent transfers and individually large deposits or transfers. Where unusual items are detected, perform follow up procedures as deemed necessary to determine whether a breach of the requirements has occurred.</p>
<p>v) To establish whether the licensed insurance broker company deposits monies received or held on behalf of his clients in relation to insurance broking business into the client account as soon as practicable after its receipt.</p>	<p>For a sample of transactions selected both from the bank statements and from the insurance broking ledgers, check to determine whether monies received or held on behalf of clients in relation to insurance broking business are being deposited into the client account as soon as practicable after its receipt.</p>
<p>vi) To establish whether the licensed insurance broker company which holds or receives client monies:</p> <p>(a) at least once a calendar month compare the total</p>	<p>a) On a sample basis, test the reconciliation statements and relevant supporting documents to determine whether comparison and reconciliation of client monies were performed in accordance with the requirements.</p> <p>b) For the samples selected, evaluate causes of the differences stated in the reconciliation statements to</p>

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<p>of the ledger balances of client monies with the total of (i) the balances shown on the bank statements and passbooks (after allowing for all unrepresented items) of all client accounts; and (ii) any client monies held by the company that have not been deposited into a client account; and</p> <p>(b) as at the same date when a comparison is made, prepare a reconciliation statement which must show the cause of the difference, if any.</p>	<p>determine whether client monies were deposited, used or withdrawn in accordance with the requirements.</p> <p>c) If the management represents that there is no insurance brokerage activity in the reporting period, perform necessary procedures to corroborate management’s representation (e.g. scan records of receipts and/or payments; obtain understanding of client’s business).</p>
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Guidance on keeping of separate client accounts under the Rules is set out in paragraphs 21 to 33 of this PN.

4. Keeping proper books and accounts

<i>Objective</i>	<i>Recommended procedure</i>
<p>i) To establish whether the licensed insurance broker company maintains sufficient and proper accounting and other records which:</p> <ul style="list-style-type: none"> • explain, and reflect the financial position and operation of, such business; • enable financial statements that give a true and fair view of its financial position and financial performance to be prepared from time to time; • account for all client monies that it 	<p>In planning and performing the audit of the licensed insurance broker company’s financial statements, the auditor should be aware of the requirements for the licensed insurance broker company to maintain, and the auditor to give an opinion on whether the licensed insurance broker company has maintained, adequate books and records during the year.</p> <p>In general, the auditor, on the basis of the audit of the licensed insurance broker company’s financial statements, should be able to reach a conclusion in respect of whether proper</p>

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<p>receives or holds;</p> <ul style="list-style-type: none"> • demonstrate compliance by it with the Rules; and • demonstrate there is no contravention of sections 71(1), (3), (4), (5) and (6) of the Ordinance; • are kept in such a manner as will enable an audit to be conveniently and properly carried out; • entries are made in those records in accordance with applicable accounting standards; and • are kept in writing in the Chinese or English language or in such a manner as to enable them to be readily accessible and readily converted into written form in the Chinese or English language. 	<p>accounting and other records have been maintained. Therefore further checking in this respect should not normally be necessary.</p>
<p>ii) To establish whether the licensed insurance broker company retains the books and records for at least 7 years.</p>	<p>Enquire with the client the procedures in place for safeguarding the books and records for at least 7 years and consider these for adequacy.</p> <p>Validate the physical existence for a sample of items.</p>

Guidance on keeping of proper books and accounts under the Rules is set out in paragraphs 34 to 37 of this PN.

Appendix 2

Example of unmodified limited assurance report for a licensed insurance broker company on compliance with the Rules

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- The reporting period begins on or after 23 September 2019; and
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the evidence obtained.

INDEPENDENT AUDITOR'S ASSURANCE REPORT

To the Director[s] of XYZ Insurance Brokers Limited

Pursuant to section 73(1)(e)⁶ of the Insurance Ordinance (Cap. 41) (the "Ordinance"), we have been engaged to perform a limited assurance engagement on the compliance of XYZ Insurance Brokers Limited ("the Company") with the requirements for capital and net assets, professional indemnity insurance, keeping of separate client accounts and keeping of proper books and accounts specified in the "Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules" ("Rules") issued by the Insurance Authority ("the IA") under section 129 of the Ordinance for the [year ended [Date]/ period from [Date] to [Date]].

Director[s]' Responsibilities

The director[s] [is][are] responsible for the Company's compliance with the requirements specified under the Rules.

Our Independence and Quality Management

We have complied with the independence and other ethical requirement of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Management 1⁷, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's Responsibilities

Our responsibility, pursuant to section 73(1)(e)⁶ of the Ordinance, is to evaluate information from the Company and report whether we are aware of any non-compliance with the requirements for (a) capital and net assets, (b) professional indemnity insurance, (c) keeping of separate client accounts and (d) keeping of proper books and accounts specified in the Rules.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 810.1 (Revised), *Licensed Insurance Broker Companies – Compliance with the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules* ("PN 810.1 (Revised)") issued by the HKICPA. We have planned and performed our work to obtain limited assurance for giving our conclusion below.

⁶ In case a licensed insurance broker company ceases to carry on regulated activities, the applicable reference of auditor's reporting requirement should be section 64T(2)(b).

⁷ HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

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We have planned and performed such procedures as we considered necessary, with reference to the procedures recommended in PN 810.1 (Revised), which included reviewing, on a test basis, evidence obtained from the Company regarding the Company's compliance with the requirements specified under the Rules for the [year ended [Date]/ period from [Date] to [Date]]. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material non-compliance of capital and net assets, professional indemnity insurance, keeping of separate client accounts and keeping of proper books and accounts with the Rules.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Conclusion

Based on the foregoing,

- a. nothing has come to our attention that causes us to believe that the Company has failed to maintain paid-up share capital not less than HK\$[insert amount]⁸ for the [year ended [Date] / period from [Date] to [Date]] specified under the Rules;
- b. nothing has come to our attention that causes us to believe that the Company has failed to maintain net assets not less than HK\$[insert amount]⁸ for the [year ended [Date] / period from [Date] to [Date]] specified under the Rules;
- c. nothing has come to our attention that causes us to believe that the Company has failed to comply with the requirements in relation to the professional indemnity insurance specified under the Rules;
- d. nothing has come to our attention that causes us to believe that the Company has failed to comply with the requirements in relation to the keeping of separate client accounts specified under the Rules; and
- e. nothing has come to our attention that causes us to believe that the Company has failed to comply with the requirements in relation to the keeping of proper books and accounts specified under the Rules.

Intended Users and Purpose

Our report is intended solely for the use of the Company in connection with the requirements for filing with the IA under section 73(1)(e)⁶ of the Ordinance and may not be suitable for any other purpose. This report is not intended to be, and should not be distributed to or used for any other purpose except a copy of this report may be provided to the IA without further comment from us.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor's Address]

Date

⁸ For the period from the commencement date (i.e. 23 September 2019) to 31 December 2023, a specified insurance broker company (i.e. a company which was immediately before the commencement date registered with an approved broker body as a member, and regarded as having been granted an insurance broker company licence under section 66 of Schedule 11 to the Ordinance on the commencement date) must maintain at all times the following minimum amount of paid-up share capital and net assets:

- From the commencement date to 31 December 2021: HK\$100,000
- From 1 January 2022 to 31 December 2023: HK\$300,000
- From 1 January 2024 onwards: HK\$500,000

A licensed insurance broker company, other than a specified insurance broker company, is subject to the minimum amount of paid-up share capital and net assets of HK\$500,000 from the commencement date.

Appendix 3

Examples of suggested modified wording for a report by an auditor where a licensed insurance broker company has not complied with the Rules

If any breaches of the requirements are noted by the auditor, either on the dates chosen for testing or on other dates, the wording of the report by the auditor would be modified to give a specific report on whether or not they complied on the dates tested, and a statement that based on information given to the auditor he/she is aware of breaches on other dates during the year.

In the circumstances where the auditor expresses a qualified conclusion or a disclaimer of conclusion or adverse conclusion, the auditor's report is to be modified accordingly as required in paragraph 69(l)(v) of HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ("HKSAE 3000 (Revised)"). Further guidance is set out in paragraphs 74 to 77, A183, A189 to A192 of HKSAE 3000 (Revised).

Examples:

1. The licensed insurance broker company met the requirements on at least one date tested in the sample, but not for the whole period:

.....

Basis for Qualified Conclusion

- a. The net assets held by the Company enabled the Company to meet the net assets requirements of HK\$[insert amount]⁶ specified by the Rules as at [the year-end date] [and] [one][some]* of the dates selected by us but not as at the other dates selected by us in our sample. From information and explanations supplied to us we are aware that the Company failed to maintain net assets of HK\$[insert amount]⁹ specified under the Rules at other times during the period;
- b. as at [the year-end date] [and] [one][some]* of the dates selected by us but not as at the other dates selected by us in our sample the Company complied with the requirements in relation to the keeping of separate client accounts specified under the Rules. From information and explanations supplied to us we are aware that the Company failed to comply with the requirements in relation to the keeping of separate client accounts specified under the Rules at other times during the period. [Describe details of the non-compliance against the Rules.]

Qualified Conclusion

Based on the foregoing, except for the effects of the matters described in the Basis for Qualified Conclusion paragraph:

⁹ For the period from the commencement date (i.e. 23 September 2019) to 31 December 2023, a specified insurance broker company (i.e. a company which was immediately before the commencement date registered with an approved broker body as a member, and regarded as having been granted an insurance broker company licence under section 66 of Schedule 11 to the Ordinance on the commencement date) must maintain at all times the following minimum amount of paid-up share capital and net assets:

- From the commencement date to 31 December 2021: HK\$100,000
- From 1 January 2022 to 31 December 2023: HK\$300,000
- From 1 January 2024 onwards: HK\$500,000

A licensed insurance broker company, other than a specified insurance broker company, is subject to the minimum amount of paid-up share capital and net assets of HK\$500,000 from the commencement date.

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- a. nothing has come to our attention that causes us to believe that the Company has failed to comply with the requirements in relation to the professional indemnity insurance specified under the Rules;
 - b. nothing has come to our attention that causes us to believe that the Company has failed to comply with the requirements in relation to the keeping of proper books and accounts specified under the Rules.
2. The Company did not meet the requirements on any of the dates tested in the sample:

.....

Basis for Adverse Conclusion

- a. the net assets held by the Company did not enable the Company to meet the net assets requirements of HK\$[insert amount]¹² specified by the Rules as at the year-end date nor as at the other date[s] selected by us in our sample. From information and explanations supplied to us we are aware that the Company failed to maintain net assets of HK\$[insert amount]¹² specified by the Rules at other times during the period;
 - .
 - .
 - .
- d. the Company did not maintain client accounts in accordance with the requirements in relation to the keeping of separate client accounts specified under the Rules as at the year-end date nor as at the other date[s] selected by us in our sample. From information and explanations supplied to us we are aware that the Company failed to comply with the requirements in relation to the keeping of separate client accounts specified under the Rules at other times during the period. [Describe details of the non-compliance against the Rules.]

Adverse Conclusion

Based on the foregoing, due to the significance of the matters discussed in the Basis for Adverse Conclusion paragraph, the Company has failed to comply with the requirements specified under the Rules as at the year-end date and at the other date[s] selected by us.

**Delete as appropriate*