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23 September 2014

Division 4

Financial Services Branch

Financial Services and the Treasury Bureau

15/F, Queensway Government Offices

66 Queensway

Hong Kong

Dear Sirs

Consultation Paper on Proposals to Improve the Regulatory Regime for Listed Entity Auditors

The Hong Kong Institute of Directors (“HKIoD”) is pleased to forward our response to the captioned paper.

HKIoD is Hong Kong’s premier body representing directors to foster the long-term success of companies through advocacy and standards-setting in corporate governance and professional development for directors. We are committed to contributing towards the formulation of public policies that are conducive to the advancement of Hong Kong’s international status.

In developing the response, we have consulted our members and organised focused discussions.

Should you require further information regarding our response, please do not hesitate to contact me on tel no. 2889 9986.

With best regards

Yours sincerely

The Hong Kong Institute of Directors



Dr Carlye Tsui
Chief Executive Officer

cc: Mr Henry Lai, Chairman of Council, HKIoD & Chairman,
Corporate Governance Policies Committee

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Regulatory Regime for Listed Entity Auditors

In relation to the Consultation Paper on Proposals to Improve the Regulatory Regime of Listed Entity Auditors (June 2014), the Hong Kong Institute of Directors (“HKIoD”) wishes to present the following views and comments.

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General comments

HKIoD agrees with the general concept of the reform, which is to introduce an independent oversight regime for the regulation of listed entity auditors.

In relation to the six statutory roles and functions concerning the regulation of listed entity auditors, we have no objection to having HKICPA continue to handle

- registration;
- setting of CPD requirements; and
- setting of standards on professional ethics, auditing and assurance

, all subject to independent oversight by FRC

; and we have no objection to the proposal to transfer from HKICPA to FRC the statutory function of

- conducting recurring inspections in respect of listed entity audit engagements

; and we have no objection to having FRC continue to conduct

- independent investigation into suspected auditing/reporting irregularities

; and we have no objection to vesting with FRC

- direct disciplinary powers, including the powers to make decisions on disciplinary cases, and in this connection, empowering FRC with a range of appropriate disciplinary sanctions

The stated objective is to bring Hong Kong in line with global trends towards independent regulatory for listed entity auditors. HKIoD agrees the reform will be essential to keep Hong Kong’s status as an international financial centre and a major capital market. At the more practical level, our interests lie in ensuring a regime where the investing public can have great confidence in the integrity and reliability of listed entities’ financial reports.

We trust that an efficient, effective and fair regulatory regime will emerge from the consultation exercise and the ensuing legislative process. A few issues, however, deserve some special mention:-

Basic parameters of reform: focus on listed entity auditors

We can appreciate the rationale for focusing on listed entity auditors. The Administration, however, may want to explain further the factors or conditions that would be considered necessary or appropriate to extend the coverage of the reform beyond listed entities to include non-listed “public interest entities”.

Acceptance and recognition of overseas auditors

HKIoD agrees with the proposal to vest with FRC statutory powers to rule on applications for recognizing overseas auditors of specific overseas entities. HKIoD further agrees that the recognition should be made on a case-by-case basis, and that a decision to recognize an overseas auditor shall only apply to the audit engagement with the specific overseas entity listed in Hong Kong as set out in the application.

Among the criteria that must be satisfied for an overseas auditor to be recognized is that there must be in force a mutual or reciprocal cooperation arrangement between the regulator of the applicant and FRC. This is to ensure that the overseas auditor will in fact be regulated by an overseas regulator which can be relied upon by FRC to provide regulatory assistance, for example, to refer issues or cases involving the overseas auditor to the relevant overseas regulator.

With Hong Kong being an international financial centre vying for overseas companies to list on our Exchange, there will naturally be overseas auditors performing auditing work for some of the listed entities. Many, however, have long been concerned about the actual responsiveness of the overseas regulators on some occasions. The Government should be mindful that the perceived effectiveness of the reciprocal arrangements is key to better acceptance - at least by some - of overseas auditors.

The Government may also want to tell the public whether and how the reform if implemented will, by virtue of allowing Hong Kong to be admitted to IFIAR, actually improve cooperation between Hong Kong regulators and their overseas counterparts in ways that will give more people better confidence of effective regulation of overseas auditors.

Funding mechanism

HKIoD concurs with the “user pays” principle and the principle that the auditor oversight body should be operationally and financially independent of the Government each being applied to the funding mechanism of the regulatory regime now being proposed.

The proposal to fund FRC by introducing levies on listed entity auditors, listed entities and securities transactions, such that they could each make an equal contribution. HKIoD believes levies on listed entity auditors statutorily obliged will not render FRC being subject to undue influence by the audit profession. HKIoD also believes that levies on listed issuers and on securities transactions are reasonable, as listed entities and investors will both benefit from an enhanced regulatory regime for listed entity auditors.

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