

**Bills Committee on
Financial Reporting Council Bill**

Twelfth meeting on 24 March 2006

List of follow-up actions to be taken by the Administration

Clause 2 – Definition of “specified authority” and definitions of relevant terms

1. Having noted the Administration’s response that it is not necessary to amend the definition of “specified authority” to narrow down the scope of the term to include only full membership of the International Federation of Accountants (paragraph (a)(ii) of the definition in clause 2), some members express concern about the need to take into account the different categories of membership of the Hong Kong Institute of Certified Public Accountants (HKICPA) and other accountancy bodies in drawing up the definitions of relevant terms in the Bill, such as “auditor” and “reporting accountant”. The Administration is requested to consider and provide a written response to the members’ concern, and consult HKICPA if necessary.

Clause 4 – Requirement for the HKICPA to refer complaints about “relevant irregularity” of listed entities to the Financial Reporting Council (FRC)

2. On the Administration’s proposal for the FRC and the HKICPA to enter into a Memorandum of Understanding (MOU) to set out interface arrangements between the two bodies, such as the arrangements for the referral of complaints about “relevant irregularity”, members consider it more appropriate to set out clearly in the Bill that the HKICPA, upon receipt of a complaint about “relevant irregularity” of a listed entity, should refer the case to the FRC for investigation. In this connection, the Administration undertakes to consult the HKICPA on the following views expressed by members and provide a written response:
 - (a) Given that one of the two main functions of the FRC is to investigate relevant irregularities of auditors of listed entities, there should be a mandatory requirement for the HKICPA to refer cases concerning “relevant irregularity” of listed entities to the FRC. This can be achieved by providing the requirement in the Bill and making consequential amendments to the Professional Accountants Ordinance (Cap. 50);
 - (b) In connection with item (a) above, the FRC’s functions and independence would be undermined if the HKICPA is given the discretionary power to decide whether a complaint about “relevant

irregularity” of a listed entity should be referred to the FRC; and

- (c) In connection with item (b) above, if the Administration considers that the HKICPA should be given the discretionary power to decide not to refer a complaint about “relevant irregularity” of a listed entity to the FRC under certain circumstances, the Administration should provide justifications for its view and set out clearly the circumstances under which the HKICPA may exercise such discretionary power. The Administration is also requested to consider providing the relevant principles for the HKICPA to exercise its discretionary power in the subsidiary legislation and the detailed procedures in the form of guidelines.

Clause 4 – Drafting issue

- 3. The Administration undertakes to consider how the drafting of clause 4(7)(a) and (b) could be improved to facilitate the understanding of readers.

Clause 5 – Drafting issue

- 4. Given that not all of the five types of accounting requirements set out in paragraph (a)(i) to (v) of the definition of “relevant requirement” in Part 1 of Schedule 1 to the Bill are applicable to a relevant financial report of a listed corporation, the legal adviser to the Bills Committee considers that the draft proposed Committee Stage amendment to clause 5(1) should be refined to pinpoint a relevant non-compliance. The Administration is requested to consider how the drafting could be improved to address this concern.

Council Business Division 1
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