

Bills Committee on Financial Reporting Council Bill

**Summary of members' concerns on
funding arrangement for the Financial Reporting Council**

(Position as at 19 May 2006)

Members' concerns raised at the meetings on 27 September 2005, 7 October 2005 and
12 January 2006

1. The Administration is requested to take the following actions and provide written response:
 - (a) To further consider whether the proposed annual budget of \$10 million and reserve fund of \$10 million will be sufficient for the effective operation of the Financial Reporting Council (FRC), having regard to the following points:
 - (i) The costs involved in—
 - employing quality staff and experts, who have relevant experience and expertise but no conflict of interests, to undertake the investigation or enquiry work;
 - undertaking investigations into large corporate scandals involving a number of listed entities; and
 - any judicial review against the FRC's decisions.
 - (ii) The future workload of the Audit Investigation Board (AIB) and Financial Reporting Review Committees (FRRCs), including increase in workload arising from the surge in the number of cases;
 - (iii) Given the complexity of the issues involved, it may be necessary for FRC members to spend considerable time and efforts on FRC's work. Consideration should therefore be given to providing FRC members with remuneration. One of the possible options is to provide remuneration for a certain number of hours spent on FRC's work per month; and
 - (iv) Given the Administration's advice that the proposed annual budget for the FRC has been worked out with reference to the annual expenses incurred by the Hong Kong Institute of Certified Public Accountants (HKICPA) in undertaking investigations in 2003 and 2004, members highlight that some of the investigations of the HKICPA are conducted by retired audit professionals free of charge.

In working out the budget for the FRC, consideration should be given to whether and how far the assistance of retired audit professionals could be solicited to take up FRC's work free of charge.

- (b) To report to the Bills Committee as early as practicable on the outcome of the Administration's liaison with HKICPA, Securities and Futures Commission, and Hong Kong Exchanges and Clearing Limited on whether additional resources should be injected to the FRC.

Members' concerns raised at the meeting on 28 April 2006

- 2. To facilitate the Bills Committee's consideration of the funding arrangement for the FRC in due course, the Administration is requested to provide written response to members' views and concerns, as follows:
 - (a) Members reiterate their concerns raised at the meeting on 7 October 2005 that given the complexity of the issues involved in FRC's investigation or enquiry, it may be necessary for members of FRC/AIB/FRRC to spend considerable time and efforts on FRC's work, and consideration should therefore be given to providing these members with remuneration; and
 - (b) Whether remuneration is provided for the members of the Insider Dealing Tribunal; and if yes, the amount of remuneration.

Council Business Division 1
Legislative Council Secretariat
19 May 2006