

*Peter H.Y. Wong, G.B.S., O.B.E., J.P.*

23 September 2005

Miss Salumi Chan  
Clerk to the Bills Committee on the  
Financial Reporting Council Bill  
Legislative Council Secretariat  
3<sup>rd</sup> Floor, Citibank Tower  
3 Garden Road  
Hong Kong

Dear Madam

**Re: Financial Reporting Council ("FRC") Bill**

Please note that the comments on this are entirely my own, even though I have contributed towards the discussions going into the submissions from the HKICPA and Deloitte Touche Tohmatsu.

I recently chaired a Disciplinary Committee of the HKICPA and have submitted a lengthy submission to HKICPA on the lessons learned which no doubt will form the basis of discussions when developing the non-statutory protocols, guidelines and/or Memorandum of Understanding. I cannot stress too strongly that the rules and procedures, particularly as to the adducing of evidence by the FRC during the investigation phase and HKICPA both during the formulation and preparation of the prosecution phase as well as the disciplinary hearing phase, have to be efficient, relevant and matching. Matching because what evidence/conclusion is reached during investigation must be replicable by the prosecution during the disciplinary process. Those rules and procedure are very urgently needed.

The existing Disciplinary Rules of the HKICPA were formulated many years ago when it was a "trial by one's peers" whereas today, it is more akin to a court of law with the majority of members being non-accountants. The whole approach has to be revisited.

I see no merit in that the FRC Bill in Clause 4(3) is reinventing the potential misdeeds and negligence of accountants when what is really important is what is in the Disciplinary Rules of the Professional Accountants Ordinance. Why do we not just refer to the relevant parts of the PAO so that they are one and the same?


Cont'd ...../2

Page 2

I am very disappointed that the FRC will not be empowered to seek a court order to mandate rectification of annual financial statements of listed entities generally. In England, it is my understanding that the equivalent of the FRC has been very effective in getting errant companies to correct their accounts using the appropriate accounting treatment with a minimum of fuss. The present way of only punishing the auditor is a very clumsy and ineffective way of trying to get his client to do the right thing and does not always achieve the real objective of high quality accounts which are compliant with accounting standards. I appreciate that there are legal difficulties to legislate for listed companies which are constituted overseas, however that barrier was surmounted by using the listing rules when it first surfaced. I am sure that there are other similarly imaginative ways round this problem.

In clause 52, there has been an attempt to be all inclusive in defining what are the conflicts. Such attempt is doomed to failure because it is impossible to foresee all circumstances, particularly in the future. Surely we should enunciate the principle which is "that it is to avoid bias" and then we can set out examples to illustrate what are considered conflicts.

Yours faithfully,



Peter H.Y. Wong

HYW/ic

c.c. HKICPA

c.c. Deloitte Touche Tohmatsu