

**Bills Committee on  
Financial Reporting Council Bill**

**Second meeting on 27 September 2005**

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

Funding of the Financial Reporting Council (FRC)

1. To address members' concern about the proposed funding arrangements for the FRC, the Administration is requested to take the following actions and provide written response:
  - (a) To provide a paper explaining the basis on which the proposed annual budget of \$10 million and reserve fund of \$10 million were worked out;
  - (b) To further consider whether the proposed annual budget and reserve fund will be sufficient for the effective operation of the FRC, having regard to the costs involved in -
    - (i) employing quality staff and experts, who have relevant experience and expertise but no conflict of interests, to undertake the investigation or enquiry work;
    - (ii) undertaking investigations into large corporate scandals involving a number of listed entities; and
    - (iii) any judicial review against the FRC's decisions.

Composition of the FRC

2. Members note that while some deputations support the Administration's proposal that the majority of FRC members should be lay persons so as to enhance the public oversight of the accounting profession, some other deputations consider the proposal inappropriate and that investigation of audit irregularities should be conducted by professionals with the relevant experience and expertise. In this connection, the Administration is requested to take the following actions:
  - (a) To provide a paper on the criteria for appointment of FRC members; and
  - (b) To consider whether there should be provisions in the Bill specifying the criteria for appointment of lay members and other members of the FRC.

Need for the establishment of the FRC

3. To address a member's concern on whether establishment of the FRC is the only option to improve financial reporting of listed companies, the Administration is requested to consider the member's suggestion of setting up a new division under the Securities and Futures Commission (SFC) to take up the proposed functions of the FRC for an initial period of a few years. The suggestion may address the concerns about insufficient resources for the FRC and overlap of investigatory functions between the SFC and the FRC. The Administration may review after a few years the need for establishing the FRC as an independent statutory body in the light of experience.

Council Business Division 1  
Legislative Council Secretariat  
28 September 2005