

**Bills Committee on
Financial Reporting Council Bill**

Third meeting on 7 October 2005

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

Establishment of the Financial Reporting Council (FRC)

1. To address the concerns raised by some deputations about the need for establishing the FRC, the Administration is urged to liaise with the deputations concerned and explain the Administration's responses to them.

Funding of FRC

2. To address the concerns raised by members and deputations about the proposed funding arrangements for the FRC at the Bills Committee meetings on 27 September and 7 October 2005, the Administration is requested to take the following actions and provide written response:
 - (a) To take into account the following points when considering whether the proposed annual budget of \$10 million and reserve fund of \$10 million will be sufficient for the effective operation of the FRC -
 - The estimated workload of FRC should be worked out;
 - 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
 - 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 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 provide a paper on the remuneration policy for members appointed to comparable statutory bodies in Hong Kong.
- (c) To report to the Bills Committee as early as practicable on the outcome of the Administration's liaison with HKICPA, the Securities and Futures Commission, and the Hong Kong Exchanges and Clearing Limited on whether additional resources should be injected to the FRC.

Composition of the FRC

- 3. Given that all members of the FRC will be appointed by the Chief Executive (CE) and that the members' qualification requirements are not set out in the Bill, members of the Bills Committee express concern that the FRC may not be able to maintain independence and there will be a lack of transparency in the appointment process. The Administration is requested to further consider putting in place measures to ensure that the membership of the FRC will include a wide and balanced composition, and that its members will have relevant experience and expertise but no conflict of interests in undertaking investigation or enquiry work.

Checks and balances of the FRC

- 4. On the proposed check and balance measures for the FRC (LC Paper No. CB(1)2368/04-05(03)), the Administration is requested to consider and respond to the following concerns and suggestions made by members:
 - (a) Clause 14, which empowers the CE to give the FRC written directions with respect to the performance of any of its functions, may undermine the independence of the FRC. The Administration is requested to re-consider the need for such a provision.
 - (b) Members are concerned that it is not set out clearly in the Bill the circumstances under which the FRC may initiate an investigation or enquiry into suspected auditing irregularities or financial non-compliances, and that there is no mechanism for reviewing FRC's decisions in this regard. The Administration is requested to take the following actions -
 - To consider the need of including provisions in the Bill to empower the FRC to initiate investigation or enquiry into suspected auditing irregularities or financial non-compliances involving "public interest";
 - To consider putting in place a mechanism for reviewing FRC's decision of not initiating an investigation or enquiry into a

suspected auditing irregularity or financial non-compliance, such as a mechanism similar to the Operations Review Committee for reviewing the decisions of the Independent Commission Against Corruption.

- (c) In connection with item 4(b) above, the Administration is requested to consider a member's suggestion of providing in the Bill a mechanism for the FRC to reach a consensus with the relevant body before making its decision of not initiating investigation or enquiry into suspected irregularities or financial non-compliance referred by the body.

Administration's responses to submissions on the Bill

- 5. To facilitate the Bills Committee's consideration of the Administration's responses to the various written submissions, the Administration is requested to take the following actions:
 - (a) To incorporate the Administration's responses in the summary of submissions prepared by the LegCo Secretariat; and
 - (b) To provide a detailed response to the view of the British Chamber of Commerce in Hong Kong that the Director of Audit may be in the best position to have a general oversight of the number and types of cases investigated by the FRC and the outcomes, and whether details are reported.

Council Business Division 1
Legislative Council Secretariat
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