

**For discussion
on 6 May 2005**

**LEGISLATIVE COUNCIL PANEL
ON FINANCIAL AFFAIRS**

**The Legislative Proposals to Establish
the Financial Reporting Council**

PURPOSE

This paper reports on the outcome of the recent public consultation on the legislative proposals to establish the Financial Reporting Council (FRC) and related matters. It also sets out our plan to take forward the FRC proposal.

BACKGROUND

2. As we briefed Members on 7 March 2005, the Administration had launched a public consultation on the FRC proposal on 28 February 2005. For this purpose, the consultation paper issued on the same day (hereafter “the Consultation Paper”) has set out, among other things, detailed proposals in respect of the composition and funding of the FRC, its powers and functions, checks and balances, as well as miscellaneous matters such as immunity and secrecy provisions.

3. The Consultation Paper has been circulated to relevant professional bodies, chambers of commerce, financial service regulators, industry associations in the financial services sector, the Standing Committee on Company Law Reform, and the respondents in our first consultation in late 2003¹. It has also been posted on the website of the Financial Services and the Treasury Bureau.

OUTCOME OF CONSULTATION

4. The consultation closed on 15 April 2005. As at 26 April 2005, we have received a total of 25 submissions. A list of the respondents is at Annex A.

¹ The consultation document “Proposals to (a): Enhance the Oversight of the Public Interest Activities of Auditors; and (b) Establish a Financial Reporting Review Panel” was issued in September 2003.

5. Among the submissions, the overwhelming majority indicate support for the establishment of the FRC. None of the submissions have raised any fundamental objection to or query on the FRC proposal. Most of the respondents consider that the establishment of the FRC is in the right direction and will help strengthen the oversight of auditors and enhance the quality of financial reporting of listed entities in Hong Kong. Some respondents have commented on a number of specific issues, such as the need to establish an independent FRC with adequate checks and balances in place, the provision of adequate funding for the FRC, as well as the proposed powers of the FRC and its modus operandi. Some other comments, which relate to the issue of non-statutory guidelines and appointment of suitable persons to the FRC, are not part of the legal framework for the establishment of the FRC and will be addressed at the time when the FRC is established.

6. A summary of the written submissions and our responses are set out at Annex B.

OTHER MATTERS

7. At the meeting of 7 March 2005, Members had sought further information on three matters: (a) the circumstances in Hong Kong that justify the establishment of the FRC; (b) the question of possible “regulatory overlap” (i.e. division of roles and responsibilities among the relevant bodies); and (c) a comparison of our FRC proposal with similar set-up in other jurisdictions. The required information is set out in paragraphs 8 to 14 below.

Circumstances in Hong Kong that Justify the Establishment of the FRC

8. The major corporate scandals in other jurisdictions in the past few years have highlighted the importance of maintaining an effective regulatory regime for the accounting profession in Hong Kong. The proposals to establish the FRC recognize the importance of reassuring the markets and the investing public that our financial reporting and corporate governance frameworks are, and will continue to be, robust. In the context of global capital markets, the ability to demonstrate the quality, independence and effectiveness of the regulatory regime for the accounting profession is ever more important internationally. We are aware that in the past few years, efforts have been made by other jurisdictions for similar purposes. It is of paramount importance for Hong Kong as an international financial centre to enhance her regulatory regime in this regard.

9. We would also like to point out that the FRC proposal has received overwhelming support in the two rounds of public consultation in late 2003 and earlier this year respectively. Furthermore, part of the proposal, i.e. the proposed formation of the Financial Reporting Review Committees (FRRC), is in line with the recommendations of the Standing Committee on Company Law Reform in Phase I of its Corporate Governance Review.

Division of Roles and Responsibilities among the Relevant Bodies

10. In devising the functions and powers of the FRC, we are mindful of the need to avoid any duplication of work among FRC, HKICPA, and other financial service regulators.

11. Insofar as the investigation of auditors' irregularities is concerned, the HKICPA at present possesses investigatory powers under the Professional Accountants Ordinance (Cap. 50) to investigate irregularities of its own members and student members, registered firms as well as corporate practice. Upon its establishment, the FRC will investigate auditors' irregularities involving listed entities, whereas the HKICPA will continue to deal with cases in the non-listed sector. In a nutshell, the FRC will simply take over from the HKICPA the responsibility for investigating the irregularities of auditors concerning listed corporations and listed collective investment schemes. This should not affect the current responsibilities of other regulators including SFC and HKEx. The division of work between SFC/HKEx and FRC will be similar to that between SFC/HKEx and HKICPA at present. Moreover, as a transitional arrangement, FRC will not deal with those cases which took place before its establishment and have been received by the HKICPA.

12. As regards the review of financial reports, there is at present no statutory mechanism in Hong Kong to provide specifically for enquiry into financial reports of listed entities. Although the Professional Standards Monitoring Committee of the HKICPA regularly conducts review of annual reports of listed companies, it has no statutory powers to make any enquiry. As for the HKEx, it is primarily concerned with the disclosure requirements under the Listing Rules in its review of the financial information disclosed by listed issuers, but it has no statutory powers to request rectification. The FRC thus fills the "gap" of drawing upon professionals with expertise forming a FRRC, vested with statutory powers, to enquire into any non-compliance of financial reports of listed entities with the relevant legal and accounting requirements, and request or recommend necessary rectifications.

13. In any case, we envisage that upon its establishment, the FRC would explore the need for drawing up memoranda of understanding with HKICPA, HKEx and SFC to delineate more clearly the interface among these bodies to facilitate cooperation and avoid duplication of work.

Experience in Other Jurisdictions

14. Internationally, we have looked into the practice of three other jurisdictions, namely Australia, the United Kingdom (UK) and the United States (US). A table summarizing our findings in this regard is at Annex C.

15. As illustrated in Annex C, there are considerable differences between the regulatory regimes for the auditing/accounting in the three jurisdictions. For example, in Australia and the US, a person has to be registered with the financial regulator before he/she may become a company auditor. In the UK and Hong Kong, there is no such registration requirement. Having said this, there is a general trend in the relevant places towards greater independence from the accounting profession in the oversight of auditors and listed companies' financial reporting.

16. As far as our FRC proposal is concerned, the FRRC part of the proposal is generally modelled on the similar set-up in the UK, in terms of its functions, powers and composition. As for the proposed Audit Investigation Board (AIB), our proposals are similar to the other three jurisdictions in areas such as investigatory work being conducted by bodies other than the professional associations, but different in one aspect, i.e. AIB's role and functions being confined to investigation only rather than encompassing disciplinary proceedings against an auditor. In some other jurisdictions, their audit investigation bodies are also having disciplinary functions. Indeed, this matter had been discussed in considerable depth in the first public consultation in late 2003. The majority view at that time was that AIB's role should be investigatory only, and that disciplinary proceedings should continue to be vested with the relevant professional bodies, such as the HKICPA. In this regard, it is relevant to point out that with the commencement of the Professional Accountants (Amendment) Ordinance 2004 in November 2004, the participation of people from outside the accounting profession in and the transparency of the disciplinary proceedings of the HKICPA have been substantially enhanced. The majority of the members of a Disciplinary Committee and its Chairman under the HKICPA must now be lay persons, and in general the proceedings of the Committee are open to the public.

WAY FORWARD

17. In the light of the overwhelming support received during the recent public consultation, the Administration aims at introducing a Bill into the Legislative Council within the 2004/05 session to take forward the FRC proposal.

**Financial Services and the Treasury Bureau
April 2005**

**Consultation Paper on Legislative Proposals
to Establish the Financial Reporting Council**

List of Submissions*

1. Consumer Council
2. CPA Australia
3. Deloitte
4. Eco-Tek Holdings Limited
5. Hong Kong Bar Association
6. Hong Kong Stockbrokers Association Limited
7. KPMG
8. Mandatory Provident Fund Schemes Authority
9. Mr Albert Li
10. Mr David Gunson
11. Mr So Wai Man, Raymond
12. Mr Tim Lui
13. National Institute of Accountants of Australia
14. Office of the Ombudsman, Hong Kong
15. Office of the Privacy Commissioner for Personal Data
16. PricewaterhouseCoopers
17. Securities and Futures Commission
18. The Association of Chartered Certified Accountants
19. The Association of International Accountants
20. The British Chamber of Commerce in Hong Kong
21. The DTC Association (The Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies)
22. The Hong Kong Federation of Insurers
23. The Hong Kong Institute of Company Secretaries
24. The Law Society of Hong Kong
25. *One respondent has requested its name not to be disclosed.*

*in alphabetical order

**Consultation Paper on Legislative Proposals
to Establish the Financial Reporting Council**

SUMMARY OF SUBMISSIONS, COMMENTS AND RESPONSES

1. As at 26 April 2005, 25 submissions were received, two of which do not give any comments.
2. Furthermore, the Standing Committee on Company Law Reform has discussed the Consultation Paper and indicated its general support for the Financial Reporting Council (FRC) proposal.

General Comments

3. There is overwhelming support for the legislative proposals to establish the FRC, which would –
 - (a) strengthen the oversight of auditors and enhance the quality of financial reporting by listed entities;
 - (b) ensure an effective, transparent and accountable regulatory regime for the accounting profession in Hong Kong;
 - (c) have positive impact on upholding of corporate governance regime and maintenance of investor confidence in the accounting profession and financial markets in Hong Kong; and
 - (d) be in line with international development.

Establishment, Composition and Operational Structure of the FRC

Comments

4. Those who have commented on this area generally agree that the proposed FRC should be an independent statutory body and comprise a wide spectrum of representatives from the business, investors, professionals and other interested parties. While there is no general objection to the Council comprising a majority of lay persons, there are comments that a balance should be struck between the perceived independence and professional competence of members appointed.

Our Response

5. The comments are in line with our intention to establish an independent FRC with a wide and balanced representation. We will take into account these comments, when considering the appointments of members to the FRC after its establishment.

Financial Arrangement for the FRC

Comments

6. Amongst the submissions received, four of them raise concerns about the sufficiency of the proposed funding for the FRC.

Our Response

7. We would like to point out that the proposed FRC is expected to have a lean structure. The proposed recurrent funding of \$10 million per year, as agreed among the HKEx, HKICPA, SFC and the Government (whose contribution will come from the Companies Registry Trading Funding (CRTF)), would apply to the first three years of the operation of the FRC. In addition, the four parties have agreed to contribute a one-off amount of \$2.5 million each to set up a Reserve fund on top of the recurrent funding, and the CRTF will provide accommodation for the FRC. With this proposed funding, the FRC is expected to have sufficient resources to carry out its functions, at least for the initial years of operation¹. In any case, the four parties have agreed to fund the FRC on an equal share basis and that the amount of contribution from the fourth year onwards would be reviewed in the third year in the light of actual operational experience.

Accountability and Independence of the FRC

Comments

8. Submissions generally support the broad direction to establish an independent FRC with adequate checks and balances in place.

¹ As a ballpark reference, the HKICPA has incurred about \$14 million and \$11 million in 2004 and 2003 respectively on the compliance function, including investigation of irregularities, handling complaints, and conducting practice review as well as disciplinary proceeding. The FRC is aimed at sharing only a part of the investigatory function (viz. investigation of auditors' irregularities and enquiry into financial reports in relation to the listed entities) currently with the HKICPA.

9. Those who have commented on this area have given the following views -

- (a) In respect of the question as to the need for an appeal tribunal, most of the submissions that have commented on this question agree that since the proposed FRC will only have investigatory power and will be subject to checks and balances, there is no need to have a separate appeal tribunal. However, one submission considers it necessary to have a tribunal to hear appeals from parties aggrieved by an action of the FRC.
- (b) Some submissions consider that additional checks and balances are desirable to ensure the independent operation of the FRC, such as publication of FRC's operating guidelines to enhance transparency.
- (c) Some submissions suggest that the arrangement for the disclosure of conflict of interests should be set out in clearer terms.
- (d) Two submissions are of the view that the power of the Chief Executive to give directions to the FRC may affect the latter's independence in the eyes of the public.

Our Response

10. Our responses are as follows: -

- (a) Regarding paragraph 9(a), we agree that there is no need to have a separate appeal tribunal given that the proposed FRC will only have investigatory / enquiry powers.
- (b) We will take into account the comments at paragraphs 9(b) and (c), as well as the corresponding arrangements in respect of other statutory bodies, in firming up our proposals. There will be a series of statutory and non-statutory measures to ensure the accountability and independence of the FRC. For instance, the FRC would be empowered to issue non-statutory guidelines on matters including the manner in which the FRC will perform its functions or exercise its powers.
- (c) Regarding paragraph 9(d), the provision about the Chief Executive giving written directions to the FRC should be viewed as a tool of last resort for the Government to implement necessary

remedial measures in the most pressing and extreme circumstances, in order for the Government to perform its role in the regulatory structure and account to the legislature and the public for effective regulation of the financial markets. There is also a similar reserve power, which will not be used lightly, under, for instance, the Securities and Futures Ordinance (Cap. 571), Deposit Protection Scheme Ordinance (Cap. 581) and Banking Ordinance (Cap. 155). Moreover, under our proposal, the exercise of the power will be subject to two qualifiers, i.e. the Chief Executive must consult the FRC Chairman in advance and is satisfied that it is in the public interest to give such a direction to the FRC.

Investigatory Powers of the Audit Investigation Board (AIB)

Comments

11. Submissions generally support the proposal for the AIB to investigate suspected irregularities of auditors in relation to their audits of and preparation of financial reports to be included in the prospectuses of listed entities.
12. With respect to the scope of the AIB's investigatory powers and jurisdictions, we note the following views from the submissions: -
 - (a) Two submissions suggest a "public interest test" or "materiality" test be added as a threshold to trigger AIB's investigation. One submission also comments that AIB should not investigate an irregularity concerning "auditors' negligence in the conduct of profession". Two submissions suggest that consideration be given to extend the remit of the AIB to other non-listed entities.
 - (b) Three submissions point out that the power to require production of documents or records goes too far to require a third party to give information generally. Further, one submission comments that the power to apply for a magistrate's warrant to enter and search premises and seize documents should be ring-fenced such that the scope of search is confined to premises of the relevant auditors, corporations and their group companies; and that there should be an exclusion of domestic premises.
 - (c) Two submissions agree that the function of the AIB should only be investigatory (vis-à-vis the disciplinary function), but one

other submission takes a contrary view.

- (d) One submission is concerned about the proposal to empower the AIB to require the production of documents and the giving of explanation notwithstanding that the person subject to investigation might tend to incriminate himself in doing so.

Our Response

13. Our responses are as follows: -

- (a) Regarding comments at paragraph 12(a), we are of the view that irregularities of auditors in relation to the audit of listed entities required under the Companies Ordinance (Cap. 32) and Listing Rules per se should constitute sufficient public interests and materiality warranting investigation by the AIB. In this light, we consider that introducing an additional “materiality” or “public interest” test, without passing which an investigation should not be triggered, in the legislation is not necessary. There is also no such tests in comparable legislation such as the company inspection regime under the Companies Ordinance (Cap. 32). Furthermore, we find it unconvincing to ask the FRC not to look at “professional negligence” of an auditor, which can be a serious misconduct and cause considerable loss to parties such as companies and investors. In addition, as a start up, we consider it appropriate and proportionate for the AIB to concentrate on cases involving listed entities.
- (b) Regarding comments at paragraph 12(b), in formulating the legislative proposals, references have been made to the current investigation regime concerning listed corporations under the Securities and Futures Ordinance (Cap. 571) such that suitable checks and balances are installed. Under our proposal, the exercise of such powers will be subject to certain statutory thresholds, consultation with other regulatory bodies, privilege against self-incrimination or the Magistrate’s warrant. Excluding certain class of persons and premises from the proposed power may run the risks of creating incentives for the removal or destruction of evidence pertinent to the investigation.
- (c) Regarding comments at paragraph 12(c), the matter had been discussed in considerable depth in the first public consultation in late 2003. The majority view at that time was that AIB’s role

should be investigatory only, and that disciplinary proceedings should continue to be vested with the relevant professional bodies, such as the HKICPA. With the commencement of the Professional Accountants (Amendment) Ordinance 2004 in November 2004, the independence and transparency of the disciplinary proceedings of the HKICPA have already been enhanced.

- (d) Regarding paragraph 12(d), we will incorporate a provision with reference to section 187(2) of the Securities and Futures Ordinance (Cap. 571) to address the concern about the need to protect the privilege against self-incrimination.

Enquiry Powers of the Financial Reporting Review Committees (FRRC)

Comments

- 14. Of those who have commented on the Financial Reporting Review Panel (FRRP)/FRRC proposal, they generally support the proposals as set out in the Consultation Paper.
- 15. Major specific comments are set out as follows -
 - (a) Two submissions raise concern over the technical competency of the composition of a FRRC. They consider that members of a FRRC should possess relevant accounting expertise. One suggests that the FRRP and each FRRC should consist of a majority of accountants.
 - (b) In respect of the proposed scope of the “relevant financial report” into which a FRRC may make inquiries, whilst most of the submissions which have commented on this agree with the proposed scope, one submission suggests that the scope should be extended to cover other information issued together with financial statements such as directors’ report.
 - (c) One submission proposes that FRRC proceedings should include a fair and transparent process before it reaches a conclusion. Another submission suggests that audit firms should have with the right to make representations to the FRC, before a FRRC comes to a recommendation that the accounts in question should be rectified.

Our Response

16. Our responses are as follows: -

- (a) Regarding paragraph 15(a), we agree that appointees to the FRRP, who would be drawn to constitute a FRRC to enquire into a particular case, should come from a wide range of financial reporting, auditing, banking, financial services and commercial expertise.
- (b) Regarding paragraph 15(b), the present scope of “relevant financial reports” subject to the FRRC’s enquiry is considered appropriate at least in the start up of the operation of the FRRC.
- (c) Regarding paragraph 15(c), we recognize the importance of procedures to ensure that companies in question be given a chance to explain its case before a FRRC reaches a recommendation.

Modus Operandi of the FRC

Comments

- 17. Submissions generally agree to the proposal that the FRC should have the power to publish an investigation/enquiry report. Two submissions are concerned about the implication of the publication. One submission points out that the FRC should have guidelines to set out the circumstances under which a report may be published.
- 18. Those who have addressed the immunity issue generally support the proposal that auditors should be protected by statutory immunity in reporting to the FRC on any suspected fraud or irregularities in audits.

Our Response

19. We will note the comments.

**Financial Services and the Treasury Bureau
April 2005**

**A Comparison of the Proposed FRC in Hong Kong vis-à-vis
Similar Bodies in Other Jurisdictions¹**

	Hong Kong	The United Kingdom (UK)	Australia	The United States (US)
Accounting Profession Regulatory Regime	<ul style="list-style-type: none"> ● The accounting profession is primarily self-regulating by Hong Kong Institute of Certified Public Accountants (HKICPA). ● No person shall be appointed as an auditor of a company unless he is a member of HKICPA. 	<ul style="list-style-type: none"> ● The accounting profession is primarily self-regulating by six recognized professional accounting bodies. ● No person shall be appointed as a company auditor unless he is a member of a recognized professional body and is eligible for the appointment under the rules of that body. 	<ul style="list-style-type: none"> ● There are several professional accounting bodies in the accounting sector. ● Every accountant who is to undertake an audit for a company must be registered with the Australian Securities and Investments Commission (ASIC) (similar to the Securities and Futures Commission in Hong Kong) as a registered company auditor (RCA). ASIC may cancel or suspend the registration of a person as a RCA. 	<ul style="list-style-type: none"> ● The accounting profession is regulated along state lines. American Institute of CPAs (AICPA) is a nationwide voluntary professional body for accountants. ● Every public accounting firm is required to be registered with the Public Company Accounting Oversight Board (PCAOB) appointed by the Securities and Exchange Commission (SEC) as a registered public accounting firm before it can prepare or issue audit report with respect to any company registered with the SEC.

¹ Sources of information: Relevant overseas legislation and the websites of the bodies concerned.

	Hong Kong	The United Kingdom (UK)	Australia	The United States (US)
Accounting Profession Regulatory Regime (Cont'd)	<ul style="list-style-type: none"> HKICPA has its membership requirements and code of professional conducts. The Professional Accountants Ordinance empowers Investigation Committees and Disciplinary Committees constituted by the Council of HKICPA to conduct investigation and disciplinary proceedings in respect of any misconduct of a professional accountant. 	<ul style="list-style-type: none"> The recognized professional bodies have their own membership requirements, code of professional conduct, expulsion and disciplinary proceedings. The arrangements for regulating and disciplining their members are overseen by the UK Professional Oversight Board for Accountancy (POBA) of the UK Financial Reporting Council. 	<ul style="list-style-type: none"> Each professional body has its own membership requirements, code of conduct, expulsion and disciplinary proceedings. The arrangements for regulating and disciplining their members are overseen by the Financial Reporting Council². 	<ul style="list-style-type: none"> Although expulsion from the AICPA would entail a certain degree of opprobrium, it would not prevent an accountant from practicing.
FRC or similar body	<ul style="list-style-type: none"> Financial Reporting Council (FRC) 	<ul style="list-style-type: none"> Financial Reporting Council (UKFRC) 	<ul style="list-style-type: none"> Companies Auditors and Liquidators Disciplinary Board (CALDB) Financial Reporting Panel (FRP)(being established in 2005)³ 	<ul style="list-style-type: none"> Public Company Accounting Oversight Board (PCAOB)

² The Financial Reporting Council in Australia is a statutory body responsible for providing broad oversight of the process for setting accounting and auditing standards as well as monitoring the effectiveness of auditor independence requirements in Australia.

³ The Financial Reporting Panel is to be established under the Australian Securities and Investments Commission Act as amended in 2004 to resolve disputes between ASIC and any company concerning the company's accounting treatments in its financial report. According to our understanding, the FRP is being established in 2005.

	Hong Kong	The United Kingdom (UK)	Australia	The United States (US)
Composition	<ul style="list-style-type: none"> • The FRC would comprise not more than 11 members, including one Chairman and one Chief Executive Officer (CEO). • Save for an ex-officio member from the Administration, all other members would be appointed by the Chief Executive (CE) as below. • The CE would appoint on an “<i>ad personam</i>” basis 3 members nominated by the SFC, HKEx and HKICPA respectively, 4 to 6 other members, and the CEO. 	<ul style="list-style-type: none"> • The UKFRC has up to 30 members (including the 5 Directors of UKFRC) and in addition a number of observers from other bodies with an interest in corporate reporting and governance. • The 5 Directors of UKFRC (including Chair and Deputy Chair) are all appointed by the Secretary of State for Trade and Industry. • Other members are appointed by the Directors. 	<ul style="list-style-type: none"> • The CALDB consists of 14 members, including a Chairperson and a Deputy Chairperson. The Chairperson and Deputy Chairperson of the CALDB are appointed by the Minister. As for the remaining members, the Minister selects 6 members from two panels of persons nominated by two accounting bodies and appoints 6 members as representatives of the business community. • The FRP consists of such members not fewer than 5, including the Chairperson. • All members of the FRP are to be appointed by the Minister. 	<ul style="list-style-type: none"> • The PCAOB comprises 5 independent members, not more than two of whom may be professional accountants. • The members of the PCAOB are appointed by the SEC after consultation with the Chairman of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury.

	Hong Kong	The United Kingdom (UK)	Australia	The United States (US)
Organization Structure	<ul style="list-style-type: none"> ● Statutory body ● The FRC would oversee the Audit Investigation Board (AIB) and the Financial Reporting Review Committee (FRRC). 	<ul style="list-style-type: none"> ● Company limited by guarantee. ● UKFRC oversees the following regulatory bodies: Professional Oversight Board for Accountancy (POBA), Financial Reporting Review Panel (FRRP), Accountancy Investigation and Discipline Board (AIDB), Auditing Practices Board (APB), and Accounting Standards Board (ASB)⁴. 	<ul style="list-style-type: none"> ● Both of the CALDB and the FRP are statutory bodies established under Australian Securities and Investments Commission Act. 	<ul style="list-style-type: none"> ● Statutory body established under the Sarbanes-Oxley Act (Act).
Funding	<ul style="list-style-type: none"> ● Funded by SFC, HKEx, HKICPA and CR Trading Fund on an equal share basis. 	<ul style="list-style-type: none"> ● Funded by the accounting professions, the business community and the government in equal proportion. 	<ul style="list-style-type: none"> ● Both of the CALDB and the FRP are funded by the Government. 	<ul style="list-style-type: none"> ● The PCAOB is funded by annual accounting support fees levied on companies registered with SEC.

⁴ Financial Reporting Review Panel (FRRP) is responsible for seeking to ensure that the financial information by public and large private companies complies with Companies Act requirements; Accountancy Investigation and Discipline Board (AIDB) is responsible for providing an independent investigation and discipline scheme in relation to accounting profession for matters which raise important issues affecting the public interest; Auditing Practices Board (APB) is responsible for establishing auditing standards; Accounting Standards Board (ASB) is responsible for developing accounting standards; and Professional Oversight Board For Accountancy (POBA) is responsible for overseeing the regulations of the auditing and accounting profession.

	Hong Kong	The United Kingdom (UK)	Australia	The United States (US)
Oversight of the auditing profession	<ul style="list-style-type: none"> ● The AIB consists of employees of the FRC and other consultants, agents or advisers engaged by the FRC. ● The AIB is responsible for carrying out investigation into suspected irregularities committed by auditors of listed entities. ● The AIB may request information, explanation and assistance from relevant persons in the course of investigation. ● The AIB will submit an investigation report to the FRC for the latter's determination as to whether or not the case should be referred to other regulatory authorities or professional bodies. 	<ul style="list-style-type: none"> ● The AIDB has 8 members, majority of which are non-accountants. ● The AIDB is responsible for investigating cases which raise or appear to raise serious issue affecting the public interest in the UK to determine whether or not there has been any misconduct by an accountant. ● The AIDB has the power to seek information and documents from accountants and require them to give evidence to a tribunal. ● If the investigation reveals that the accountant should be subject to disciplinary proceedings, the AIDB will appoint a Disciplinary Tribunal to hear the case. 	<ul style="list-style-type: none"> ● The CALDB consists of 14 members, including a Chairperson and a Deputy Chairperson. ● The CALDB is responsible for determining, inter alia, whether a person has failed to perform adequately and properly the duties of an auditor or any functions required by the Australian law to be carried out by a registered company auditor or is otherwise not a fit and proper person to remain registered as an auditor. ● The CALDB does not directly conduct investigation, and rely on ASIC in this regard. ● The CALDB shall give an opportunity to appear at a hearing and to make submissions. 	<ul style="list-style-type: none"> ● The PCAOB comprises 5 independent members, not more than two of whom may be professional accountants. ● The PCAOB is responsible for overseeing auditors of public companies. It has the authority to, inter alia, conduct investigations and disciplinary proceedings in respect of any non-compliance of the Act and the rules of the PCAOB and SEC by an audit firm. ● The PCAOB may require testimony of and production of any document from relevant person during investigation. ● The PCAOB shall provide opportunity to defend in disciplinary proceedings.

	Hong Kong	The United Kingdom (UK)	Australia	The United States (US)
Oversight of the auditing profession (Cont'd)	<ul style="list-style-type: none"> ● AIB will not have disciplinary function. 	<ul style="list-style-type: none"> ● The AIDB may impose sanctions such as reprimand, fine and suspension of licence. Every recognized professional body must recognize the ruling of the AIDB. 	<ul style="list-style-type: none"> ● The CALDB may reprimand the person; cancel, or suspend for a specified period the registration of the person as an auditor; require the person to undertake to engage in or refrain from engaging in a specified conduct. 	<ul style="list-style-type: none"> ● The PCAOB may impose sanctions, e.g. suspension/revocation of registration, fine, censure. It may also refer an investigation to the SEC and any other regulators.
Oversight of the quality of Corporate Financial Reporting	<ul style="list-style-type: none"> ● The FRRP will comprise not less than 20 members of a wide range of financial reporting, auditing, banking, financial services and commercial expertise, appointed by the CE. ● At least five members drawn from the FRRP will constitute a FRRC to enquire into an individual case. ● The FRRP would enquire into suspected non-compliance of the accounts and financial statements of listed entities with relevant legal and accounting requirements. 	<ul style="list-style-type: none"> ● At present, the FRRP comprises 24 members appointed by the FRC. ● A group of FRRP members (Group), normally 5, will conduct an enquiry. ● The Group considers whether the accounts of a public company and a large private company comply with relevant legal and accounting requirements⁵. 	<ul style="list-style-type: none"> ● The FRP will consist of such members not fewer than 5. ● Three members will be drawn from the FRP to form a dedicated panel (Panel) to consider a case ● The Panel will see whether the financial reports comply with the relevant financial reporting requirements, and if not, the changes need to be made to ensure compliance and prepare a report. 	<ul style="list-style-type: none"> ● Not applicable, the corporate reporting of listed companies remains under the oversight of the SEC.

⁵ In addition, the FRRP is also appointed under the Supervision of Accounts and Reports (Prescribed Body) Order 2005 to keep under review Reports produced by certain issuers of listed securities that are required to comply with accounting requirements of listing rules and, if it thinks fit, to inform the Financial Services Authority of any conclusions it reaches in relation to any such reports.

	Hong Kong	The United Kingdom (UK)	Australia	The United States (US)
Oversight of the quality of Corporate Financial Reporting (Cont'd)	<ul style="list-style-type: none"> • The FRRC would have the power to require documents, information and explanations. • The FRRC may request voluntary rectification of accounts. • Failing voluntary rectification, the FRRC may seek a court order to secure mandatory rectification. 	<ul style="list-style-type: none"> • The FRRP may ask directors to explain apparent departure from the accounting requirements. • The FRRP may request voluntary rectification of accounts. • Failing voluntary rectification, the FRRP may seek a court order to secure mandatory rectification. 	<ul style="list-style-type: none"> • The Panel may by written summons require a staff of ASIC, an officer of the company, the relevant auditor, and any other person involved to give evidence, answer questions and produce documents. • A Court, or a tribunal of fact, may have regard to the Panel's report in determining whether the financial report complied with the relevant financial reporting requirement. 	