

立法會
Legislative Council

LC Paper No. CB(1)1248/20-21
(These minutes have been seen
by the Administration)

Ref : CB1/PL/FA

Panel on Financial Affairs

**Minutes of meeting held on
Monday, 5 July 2021, at 10:45 am
in Conference Room 1 of the Legislative Council Complex**

Members present : Hon Jeffrey LAM Kin-fung, GBS, JP (Chairman)
Hon WONG Ting-kwong, GBS, JP (Deputy Chairman)
Hon Abraham SHEK Lai-him, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Kin-por, GBS, JP
Hon MA Fung-kwok, GBS, JP
Hon Christopher CHEUNG Wah-fung, SBS, JP
Ir Dr Hon LO Wai-kwok, GBS, MH, JP
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai, JP
Hon CHAN Chun-ying, JP
Hon CHEUNG Kwok-kwan, JP
Hon LUK Chung-hung, JP
Hon Kenneth LAU Ip-keung, BBS, MH, JP
Dr Hon CHENG Chung-tai

Members absent : Hon Mrs Regina IP LAU Suk-ye, GBM, GBS, JP
Dr Hon Junius HO Kwan-yiu, JP

**Public officers
attending** : Agenda Item IV

Ms CHAN Wing-shiu, May, JP
Deputy Secretary for Financial Services and the Treasury
(Financial Services)¹

Ms CHEUNG Yi, Eureka
Principal Assistant Secretary for Financial Services and
the Treasury (Financial Services)5

Ms CHUNG Wing-man
Acting Assistant Commissioner of Police (Crime)

Ms LAM Man-han
Chief Superintendent of Police (Financial Intelligence
and Investigation Bureau)

Mr FONG Yiu-hang
Chief Systems Manager (Information Technology
Branch) (Information Systems Wing)
Hong Kong Police Force

Mr YAP Wah-yong
Senior Systems Manager (Operations Systems)
(Information Systems Wing)
Hong Kong Police Force

Agenda Item V

Mr HUI Ching-yu, Christopher, JP
Secretary for Financial Services and the Treasury

Mr HUI Chark-shum, Sam
Deputy Secretary for Financial Services and the Treasury
(Financial Services) Special Duties

Mr AU Ka-shing, Billy
Principal Assistant Secretary for Financial Services and
the Treasury (Financial Services)4

Clerk in attendance: Ms Connie SZETO
Chief Council Secretary (1)4

Staff in attendance : Miss Sharon LO
Senior Council Secretary (1)9

Ms Sharon CHAN
Legislative Assistant (1)4

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I Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)1024/20-21 — Minutes of meeting on 9 April 2021)

The minutes of the meeting held on 9 April 2021 were confirmed.

II Information papers issued since the meeting on 7 June 2021

(LC Paper No. CB(1)991/20-21(01) — Administration's paper on "Government's Investment in Cathay Pacific Airways Limited under the Land Fund"

LC Paper No. CB(1)1001/20-21(01) — Process Review Panel for the Financial Reporting Council 2020 Annual Report)

2. Members noted the two information papers issued since the regular meeting held on 7 June 2021.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)1051/20-21(01) — List of outstanding items for discussion)

3. Members noted that the Administration did not have urgent items for Panel's discussion in August 2021 (i.e. during Council's summer break), and agreed that no regular meeting would be held in August 2021.

4. Members also agreed that regular Panel meetings would be held on 6 September 2021 and 4 October 2021. Members would be informed of the meeting arrangements in due course.

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(*Post-meeting note:* The schedule of regular meetings in September and October 2021 was circulated to members vide LC Paper No. CB(1)1084/20-21 on 5 July 2021.)

IV Provision of Financial Data Analytic Platform under the Hong Kong Police Force

(LC Paper No. CB(1)1051/20-21(02) — Administration's paper on Development of Financial Data Analytic Platform for the Hong Kong Police Force)

Briefing by the Administration

5. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services)¹ ("DS(FS)1") briefed members the Administration's proposal to develop a financial data analytic platform ("FDAP") for the Joint Financial Intelligence Unit ("JFIU") of the Hong Kong Police Force ("HKPF"), with a view to enhancing HKPF's capability in developing financial intelligence and harnessing advanced technologies to combat increasingly sophisticated financial crimes. The proposed FDAP would be equipped with sophisticated anti-money laundering and counter-terrorist financing ("AML/CTF") analytical tools for performing strategic analysis on intelligence collected by JFIU, including suspicious transactions reports ("STRs") received through the Suspicious Transaction Report and Management System ("STREAMS"). The proposed FDAP would also provide an internal platform for JFIU officers and other specialized formations of HKPF to facilitate investigation of money laundering and terrorist financing ("ML/TF") cases, and an external user portal for JFIU to exchange criminal intelligence, typologies and trends with other domestic and foreign law enforcement agencies ("LEAs"). The proposal would involve an estimated non-recurrent expenditure of about HK \$0.7 billion over a six-year period from 2021-2022 to 2026-2027, and the full commissioning of FDAP was targeted in 2027. The Administration planned to submit the funding proposal to the Finance Committee ("FC") for approval within this legislative session.

6. Acting Assistant Commissioner of Police (Crime) ("Acting ACP (Crime)") added that the proposed FDAP would be equipped with data processing and analytic capabilities to be supported by advanced technologies such as data mining, machine learning and artificial intelligence, which would facilitate JFIU in conducting strategic analysis in a more efficient and effective manner.

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Moreover, the proposed FDAP would be embedded with interfaces to obtain information from other systems of various government departments to expedite the data exchanges among the departments, and would facilitate financial institutions and designated non-financial businesses and professions in submitting STRs to JFIU.

Discussion

Implementation of the financial data analytic platform

7. Mr CHAN Chun-ying said that he supported the proposal. He noted that owing to the limited capabilities of STREAMS currently used by JFIU for receiving, processing and disseminating STRs, it took time for JFIU to determine the proper way to deal with each and every STR and could take up to six weeks for JFIU to come up with an informed decision for considering further handling of the relevant property reported in an STR. He asked if any ML/TF cases had been missed out during such long period.

8. DS(FS)1 said that the functions of STREAMS were confined to data maintenance and simple data checking. At present JFIU officers had to manually review and further analyze each STR generated from STREAMS to determine the follow-up action for each and every case. Acting ACP (Crime) supplemented that currently, after filing an STR, the reporting entity had to stop dealing with the relevant property until receiving advice from JFIU on how to handle the property. With the proposed FDAP, it was expected that the feedback on the handling of property involved in STRs could be provided to reporting entities within one week.

9. Dr CHENG Chung-tai sought clarification on whether the proposed FDAP could obtain information and intelligence directly from other systems of various government departments (e.g. the personal data kept by the Immigration Department) for further processing and analysis, and collect information and exchange intelligence with external parties in Hong Kong (e.g. banks) and overseas (e.g. LEAs in the Mainland and Macau).

10. DS(FS)1 advised that foreign LEAs and other government departments did not have direct access to the information held by the proposed FDAP. Instead, the proposed FDAP aimed to provide a secured channel for HKPF to exchange criminal intelligence, typologies and trends with other domestic and foreign LEAs. Foreign LEAs would still need to go through the existing mutual legal assistance process to obtain information held by local LEAs. Acting ACP (Crime) said that HKPF would still need to seek consent/approval from other government

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departments and relevant external parties for information request and HKPF would continue to obtain information according to the established mechanism.

11. Mr Christopher CHEUNG enquired about measures HKPF would take to ensure proper protection of the information stored in FDAP. The Chairman raised a similar question, in particular he noted that the Government Cloud Infrastructure Services ("Government Cloud") would be used for developing the proposed external user portal.

12. Acting ACP (Crime) stressed that all officers who would have access to the proposed FDAP would be subject to integrity checking, and stringent system access control would be put in place e.g. access rights would only be granted to officers based on actual operational needs. Chief Systems Manager (Information Technology Branch) (Information Systems Wing) ("CSM (ITB)) supplemented that the proposed FDAP would meet the security requirements of the Government's information technology ("IT") security regulations and related guidelines as well as HKPF's IT security policies and practices. The Government Cloud would only be used to collect data and exchange criminal intelligence, typologies and trends with other domestic and overseas LEAs, and would not be used to store confidential information and data.

Costs for developing the financial data analytic platform

13. Mr CHAN Chun-ying enquired about the systems that would interface with the proposed FDAP and if additional costs would be required for upgrading such systems. Referring to the much higher costs on site preparation and rental of the Government Cloud in developing the Traffic e-Enforcement System ("TES"), he asked about the reasons for the low estimated non-recurrent expenditure of HK\$112,000 for site preparation and HK\$5.6 million for rental of the Government Cloud in developing FDAP.

14. DS(FS)1 and Acting ACP (Crime) explained that the proposed FDAP would establish interface with HKPF's other internal systems and other databases/systems of various government departments. For instance, JFIU would explore the feasibility of establishing interface with databases/systems of other LEAs, such as the Customs and Excise Department and the Immigration Department. Regarding the estimated non-recurrent expenditure, CSM (ITB) explained that the proposed FDAP was a back-end system developed mainly to store and analyze data. TES, on the other hand, included application running on mobile devices, and offence details, photographs and/or videos would need to be captured and uploaded to TES. More equipment would need to be installed onsite and larger storage capacity would also be required, thus involving higher recurrent costs in site preparation and cloud services.

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15. Mr MA Fung-kwok expressed support for the proposal. Noting that the estimated annual recurrent expenditure for the proposed FDAP would be \$25,770,000 in 2025-2026 and 2026-2027, and would increase to \$47,635,000 from 2027-2028 onwards, he enquired about the reason for the increase.

16. CSM (ITB) said that the increase of recurrent expenditure from 2027-2028 onwards was mainly due to the need of engaging contract and IT professional staff for system maintenance and enhancement as well as the use of cloud services for receiving and processing voluminous STRs from stakeholders upon the full commissioning of the proposed FDAP.

17. Mr CHAN Kin-por expressed support for the proposal in principle. He referred to his recent visit to Cyberport and noted that by adopting regulatory technology ("RegTech") tools, financial regulators and banks could reduce 80% to 90% headcounts required for AML/CTF monitoring, reporting and compliance work, and enquired how the estimated annual notional saving of \$4,552,000 (paragraph 22 of the Administration's paper) was worked out and if the establishment of JFIU could be reduced upon commissioning of the proposed FDAP. He also urged HKPF to contact RegTech companies in Cyberport to explore the feasibility of using the relevant technologies in developing FDAP.

18. DS(FS)1 responded that the proposed FDAP would be a new system to conduct strategic analysis on financial intelligence, instead of replacing STREAMS. It was estimated that an annual notional saving of \$4,552,000 would be generated from 2027-2028 onwards upon the full commissioning of FDAP. The notional savings would be achieved through staff efficiency gain as a result of automation of data input and processing. That said, it was still necessary for JFIU officers to conduct further analysis on the intelligence generated by the proposed FDAP based on their experience and expertise, and hence the room for further reducing the staff cost was limited. Upon commissioning of the proposed FDAP, HKPF would monitor its operation and review the relevant manpower requirement as appropriate. Acting ACP (Crime) said that the Administration was liaising with a local university and system developers on the development of the proposed FDAP, and she welcomed Mr CHAN's suggestion of consulting RegTech companies in Cyberport in this regard.

Enhanced measures for combating money laundering and terrorist financing

19. Mr MA Fung-kwok enquired how the proposed FDAP would enhance HKPF's capability in combating ML/TF and tracing funding sources of terrorist activities with a view to safeguarding national security as well as maintaining law and order in Hong Kong. Noting that a hybrid approach would be adopted for

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developing the proposed FDAP, Mr MA asked how HKPF would ensure the compatibility of the procured commercial-off-the-shelf ("COTS") solution with the self-developed bespoke system.

20. Mr WONG Ting-kwong and Ms Starry LEE said that Members belonged to the Democratic Alliance for the Betterment and Progress of Hong Kong supported the proposal. Mr WONG requested the Administration to elaborate the main difference in the functions and capabilities between FDAP and STREAMS in combating ML/TF activities, in particular activities that might threaten national security, and how FDAP could exchange relevant intelligence with LEAs of the Mainland. Given the changing political and financial landscape of Hong Kong and the increasingly complex and diverse nature of financial crimes, Ms LEE enquired about other measures developed by HKPF to combat ML/TF and financial crimes, particularly those related to terrorist activities endangering national security.

21. Mr SHIU Ka-fai, Mr LUK Chung-hung and Mr Holden CHOW expressed support for developing the proposed FDAP. Mr SHIU sought information on the actions taken by HKPF in combating ML/TF in the past two years, in particular in tracing the funding sources of terrorist activities. Mr LUK and Mr CHOW expressed concern about the ML/TF risks associated with virtual assets trading platforms. Mr LUK asked if service providers of such platforms were subject to AML/CTF requirements and required to submit STRs to HKPF, in particular when virtual assets trading involved cross-border transactions. Mr CHOW enquired how FDAP would facilitate HKPF to tackle illegal acts, including ML/TF, associated with virtual assets.

22. DS(FS)1 and Acting ACP (Crime) advised that a hybrid approach would be adopted for developing the proposed FDAP, involving the procurement of COTS solution and development of a bespoke system. Procuring COTS solution would allow the system to leverage on the highly specialized solution developed by AML/CTF domain experts with good knowledge and rich experience in financial intelligence and analysis. On the other hand, the development of a bespoke system would provide flexibility and allow customization of the analytical modules to cater for local investigative needs and help mitigate the risk of over-reliance on COTS solution. While the functions of STREAMS were confined to data maintenance and simple data checking, the proposed FDAP would be equipped with data processing and analytic capabilities to be supported by advanced technologies, including fund flow analysis and network analysis, to enhance HKPF's capability in combating ML/TF activities, including activities endangering national security.

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23. Acting ACP (Crime) added that HKPF would engage service providers for developing the project and providing support services. Moreover, a project team comprising government officers with the necessary knowledge and expertise in AML/CTF would be deployed for developing and customizing data analysis models of the proposed FDAP to cater for the investigation needs of JFIU. She stressed that HKPF would continue to combat illegal acts, including fraud cases, financial crimes, terrorist activities, etc. A number of enforcement actions were taken in the past two years against ML/TF cases relating to the social incident in 2019 and other terrorist activities, including advising financial institutions in dealing with the property concerned. HKPF would keep in view the evolving trends and modus operandi of criminals, and would enhance the enforcement strategies when necessary.

24. Regarding regulation of virtual assets, DS(FS)1 advised that the Administration was working on the legislative proposals to establish a new regime to regulate virtual asset trading platforms. Under the proposed regulatory regime, licensed virtual asset service providers would be subject to AML/CTF requirements as well as other relevant regulatory requirements. Acting ACP (Crime) added that HKPF would continue to exchange criminal intelligence with overseas LEAs in combating cross-border crimes.

25. Mr Christopher CHEUNG and Mr Holden CHOW opined that besides combating financial crimes, HKPF should use the proposed FDAP to collect and exchange intelligence in order to prevent and tackle terrorist activities, in particular those endangering national security. Mr CHEUNG suggested that HKPF should develop a mechanism with financial institutions to intercept payments to fraudsters in a timely manner. Mr CHOW and Mr LUK Chung-hung further enquired how the proposed FDAP would facilitate JFIU officers in making timely decisions in intercepting payments to fraudsters so that the loss of victims would be minimized.

26. DS(FS)1 and Acting ACP (Crime) reiterated that the proposed FDAP would enhance HKPF's capability in developing financial intelligence and harnessing advanced technologies to detect and combat ML/TF, including those related to terrorist activities and endangering national security. The proposed FDAP would be equipped with sophisticated AML/CTF analytical tools for performing risk assessment on STRs received through STREAMS and intelligence collected by JFIU. With inputs of specific risk indicators and parameters such as ML/TF risks of certain geographical locations, characteristics of high-risk entities, etc., the proposed FDAP would be able to identify anomalies and timely alert JFIU officers. Moreover, the proposed FDAP would also be equipped with functions such as fund flow analysis and network analysis by performing extensive mapping of multiple data sources to help uncover illicit fund

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flow as well as hidden network. JFIU officers would be able to determine the proper way to deal with suspicious transactions in a more efficient and effective manner, including informing relevant reporting entities to stop payments to fraudsters. Acting ACP (Crime) added that in 2020, 2 594 stop payment requests were processed with \$3,067 million withheld.

Recommendations of the Financial Action Task Force

27. Ir Dr LO Wai-kwok and the Chairman expressed support for the proposal. Noting that Hong Kong was the first jurisdiction in the Asia Pacific region to have attained an overall compliant result in the latest round of mutual evaluation conducted by the Financial Action Task Force ("FATF"), Ir Dr LO sought information on the member jurisdictions of FATF and how the mutual evaluation was conducted. The Chairman enquired about the implementation of FATF's standards in Hong Kong, and the relevant work of other places, such as London, Singapore, New York, Shanghai, etc.

28. DS(FS)1 advised that FATF, established in 1989 and comprising 39 major economies of the world, including Australia, China, Singapore, the United Kingdom, the United States ("US"), etc., was an inter-governmental organization which set international standards for combating ML/TF and oversees global compliance through a peer review process called "mutual evaluation". In the latest round of mutual evaluation conducted by FATF, Hong Kong became the first jurisdiction in the Asia Pacific region to have attained an overall compliant result. While Hong Kong was commended for having a strong legal foundation and effective system for combating ML/TF, FATF also recommended JFIU to enhance its IT system and make better use of advanced technologies to assist its work in processing STRs and developing financial intelligence for further investigation. In fact, many FATF member jurisdictions, including Australia, Singapore, US, Israel etc., had already developed their own systems by applying advanced technologies such as data mining, machine learning and AI, to facilitate them in combating ML/TF. Acting ACP (Crime) reiterated that with the proposed FDAP, it was expected that the feedback on consideration of handling property involved in STRs could be generally provided to reporting entities within one week (instead of six weeks in the past). The implementation of the proposed FDAP would not change the present AML/CTF monitoring, reporting and compliance requirements of reporting entities.

Conclusion

29. The Chairman concluded that the Panel supported the Administration's plan to submit the funding proposal to FC for approval within this legislative session.

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V Further Reform of the Regulatory Regime of Accounting Profession

(LC Paper No. CB(1)1051/20-21(03) — Administration's paper on Further Reform of the Regulatory Regime of Accounting Profession

LC Paper No. CB(1)1051/20-21(04) — Background brief on the further reform of the Financial Reporting Council prepared by the Legislative Council Secretariat)

Briefing by the Administration

30. At the invitation of the Chairman, Secretary for Financial Services and the Treasury ("SFST") briefed members on the proposed amendments to the Financial Reporting Council Ordinance (Cap. 588) ("FRCO") to further develop the Financial Reporting Council ("FRC") into a full-fledged independent regulatory and oversight body for the accounting profession ("the further reform"). He said that the legislative proposals sought to: (a) empower FRC to issue practising certificates to certified public accountants ("CPAs") and register practice units and local auditors of public interest entities ("PIEs"); (b) expand FRC's current powers of inspection, investigation and discipline over PIE auditors to cover CPAs and practice units; and (c) expand FRC's oversight powers to cover the Hong Kong Institute of Certified Public Accountants ("HKICPA")'s functions of the registration of CPAs and related matters, and the setting of standards on professional ethics, accounting, auditing and assurance and the setting of requirements for continuing professional development requirements for the accounting profession. The Administration planned to introduce the relevant amendment Bill ("the Bill") into the Legislative Council ("LegCo") within the 2020-2021 legislative session.

Discussion

Necessity of the further reform

31. The Chairman, Mr WONG Ting-kwong, Mr CHAN Kin-por, Mr Christopher CHEUNG, Mr SHIU Ka-fai, and Mr CHEUNG Kwok-kwan supported the further reform which they considered would make Hong Kong's accounting regulatory regime more in line with the international standard and practice, and reinforce Hong Kong's status as an international financial centre and business hub. The Chairman enquired about the major issues/problems of the

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existing regulatory regime which the further reform sought to tackle. Mr Holden CHOW requested the Administration to elaborate on the practices of regulatory regimes for accounting profession of comparable overseas jurisdictions.

32. SFST responded that the international trend on accounting profession regulation was to vest the regulatory powers with a regulatory body independent from the trade to ensure impartiality. The direction of the proposed further reform was in line with the practices of many comparable overseas accounting jurisdictions. For instance, Australia and Singapore had set up independent regulators (i.e. the Australian Securities and Investments Commission and the Accounting and Corporate Regulatory Authority respectively) with inspection, investigation and discipline powers over the accounting profession. The United Kingdom's Financial Reporting Council regulated the accounting profession through supervision of recognized professional bodies. The US independent regulator, namely State Boards of Accountancy, also had oversight power over practice units and CPAs. In addition, the United Kingdom had plans to set up a new independent regulator (i.e. the Audit, Reporting and Governance Authority) and reclaim the powers of registration of PIE auditors from the recognized professional bodies to strengthen regulation of the accounting profession.

Funding arrangement of the post-reform Financial Report Council

33. Mr Christopher CHEUNG and Mr SHIU Ka-fai enquired about the funding arrangement for FRC after the further reform. Mr CHEUNG pointed out that pursuant to the Financial Reporting Council (Amendment) Ordinance 2019, FRC was empowered to impose a levy on securities transactions (to be paid by sellers and buyers of the securities transactions). The Administration had explained that levies on securities transactions were justified because enhancement in the PIE auditor regulatory regime could better ensure the integrity of financial reports of listed companies and thereby increase protection for investors. He enquired about the possible impact of the further reform on the levy on securities transactions. He further questioned the justification for using the levy on securities transactions to fund FRC's expanded responsibilities which would mainly relate to the regulation of non-PIE auditors, and considered that the move was inconsistent with the user-pay principle adopted in the existing funding arrangement for FRC. Moreover, Mr CHEUNG expressed concern whether the Administration had consulted the securities industry on the further reform. Noting that FRC would start collecting levy from 1 January 2022, Mr SHIU enquired whether the unspent seed capital provided by the Government to FRC in October 2019 would be sufficient in meeting FRC's expenditure before 2022.

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34. SFST and Deputy Secretary for Financial Services and the Treasury (Financial Services) Special Duties ("DS(FS)SD") responded that the Administration had been engaging various stakeholders on the proposed further reform, and was aware that the industry had views about possible changes in FRC's funding arrangement. The Administration would review FRC's funding arrangement under the reformed new regime on the premise that no additional compliance burden would be created to the accounting profession. A seed capital of \$400 million was injected into FRC in 2019 to help it migrate to the new regime regulatory regime for PIE auditors before FRC started collecting levies on 1 January 2022. About half of the seed capital would have been used by that time. FRC would fund its operating expenditure with income from levies from 1 January 2022 onwards. It was envisaged that the unspent seed capital could help fund FRC's expanded functions in the initial years of the further reform. SFST also pointed out that the further reform would enhance Hong Kong's overall market quality, which would be beneficial for all stakeholders.

Governance and work of the Financial Report Council under the reformed new regime

35. Mr Holden CHOW enquired about the details of the new regulatory regime under the further reform including whether practitioners in the accounting profession would take up positions in the post-reform FRC to exercise inspection, investigation and discipline powers over practice units and individual CPAs. He cautioned that the Administration should consider related issues prudently as the community had different views on the matter.

36. DS(FS)SD advised that, currently, FRCO provided that all members of the FRC Board must be non-practitioners, and at least one third of them were appointed because of their knowledge and experience in PIE engagements. In order to facilitate FRC's regulatory work under the reformed new regime, a statutory advisory committee consisting of practitioners, service users and other stakeholders of the accounting profession would be established to provide advice to FRC. He added that many executive members of FRC were former practitioners, and possessed the necessary knowledge and experience in accounting engagements for implementation of the regulatory work under the new regime.

37. Mr WONG Ting-kwong enquired whether the post-reform FRC would have the duty to promote the further development of the local accounting profession, including enhancing market access for the local practice units and CPAs in the Guangdong-Hong Kong-Macao Greater Bay Area ("the Greater Bay Area"). He also enquired whether the Administration had discussed with

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HKICPA and the relevant Mainland authorities the issue of market access in the Greater Bay Area.

38. SFST advised that under the reformed new regime, HKICPA would be responsible for promoting the further development of the local accounting profession including enhancing market access in the Greater Bay Area. The Administration was also liaising with the relevant Mainland authorities on measures to facilitate Hong Kong CPAs to develop business in the Greater Bay Area.

39. The Chairman enquired whether CPAs solely engaging in non-accounting work (e.g. administration work of a practice unit) would be subject to the reformed regulatory regime, and if so, whether they could apply for exemption.

40. SFST advised that HKICPA would remain the registration authority of non-practising CPAs while FRC would be responsible for the relevant investigation and disciplinary work.

41. Mr CHEUNG Kwok-kwan enquired whether the further reform would have impact on FRC's cooperation with other financial regulators such as the Securities and Futures Commission ("SFC") and the Hong Kong Exchanges and Clearing Limited ("HKEX"), and how the further reform would enhance the cooperation of various regulators in the regulation of the accounting profession.

42. SFST responded that FRC had already signed a memorandum of understanding with SFC on the regulation of PIE auditors. It was envisaged that the cooperation mechanism among FRC, SFC and HKEX would be further enhanced under the reformed new regime.

Stakeholder engagement

43. Mr CHAN Kin-por enquired about the major views and concerns received during the Administration's engagement with stakeholders on the further reform, and proposed measures to address the concerns. Mr SHIU Ka-fai enquired whether practice units of various sizes had expressed different views or concerns on the further reform. The Chairman pointed out that some members in the accounting profession had considered the proposed implementation timetable of the further reform aggressive. He urged the Administration to step up its efforts in engaging various stakeholders and addressing their concerns.

44. SFST responded that the profession was mainly concerned about the implementation timetable and transitional arrangements of the reformed new regime, the regulatory arrangements for practice units and CPAs which were

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currently not subject to the regulatory regime for PIE auditors, and whether there would be sufficient channels for the profession to reflect its views to the post-reform FRC. To allay the industry's concern about the implementation timetable and transitional arrangements of the reformed new regime, the Administration would implement the regime in a phased approach. SFST reiterated that the Administration was actively engaging various stakeholders. The broad regulatory framework of FRC under the reformed new regime would be set out in the Bill. The implementation details of the regime would be drawn up in parallel for further engagement with stakeholders in the next stage. Among them, the transitional arrangements would be stipulated in the subsidiary legislation to be tabled before LegCo for negative vetting (tentatively in 2022) after passage of the Bill. Regarding the profession's concern about the new regulatory arrangements for accounting professionals and practices currently not subject to FRC's regulation, the Administration had explained that the further reform only sought to transfer certain powers of HKICPA to FRC, and that FRC would adopt the principle of proportionality when exercising its expanded powers over the accounting profession. For all the regulatees to be newly handled by FRC, including many small and medium practices which did not carry out PIE engagements, the regulatory scope and requirements applicable to them and the consequences of non-compliance under the reformed new regime would remain comparable to those currently provided in the Professional Accountants Ordinance (Cap. 50) ("PAO"). On the mechanism of the post-reform FRC for soliciting the profession's views, SFST reiterated that a statutory advisory committee consisting of relevant stakeholders would be established to provide advice to FRC.

45. SFST further confirmed that practice units of different sizes had expressed different views on the further reform. Broadly speaking, there were three categories of practice units: (a) those solely working on PIE engagements; (b) those working on both PIE and non-PIE engagements; and (c) those solely working on non-PIE engagements. Practice units in the first two categories generally welcomed the direction of the further reform while those in the last category had raised more concerns. The Administration had assured the concerned parties in the last category that the regulatory scope and requirements applicable to them would remain largely the same as in the existing regime under PAO.

Conclusion

46. The Chairman concluded that Panel members generally supported the Administration's plan of introducing the Bill into LegCo within the 2020-2021 legislative session.

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(At 12:26 pm, the Chairman ordered that the meeting be extended for 10 minutes to 12:40 pm to allow sufficient time for discussion.)

VI Any other business

47. There being no other business, the meeting ended at 12:39 pm.

Council Business Division 1
Legislative Council Secretariat
25 August 2021