

立法會
Legislative Council

LC Paper No. CB(1)136/05-06
(These minutes have been seen
by the Administration)

Ref : CB1/BC/13/04

Bills Committee on Financial Reporting Council Bill

**Minutes of the second meeting held on
Tuesday, 27 September 2005, at 2:30 pm
in the Chamber of the Legislative Council Building**

Members present : Hon TAM Heung-man (Chairman)
Hon Bernard CHAN, JP
Hon CHAN Kam-lam, SBS, JP
Hon SIN Chung-kai, JP
Dr Hon Philip WONG Yu-hong, GBS
Hon Emily LAU Wai-hing, JP
Hon Ronny TONG Ka-wah, SC

Members absent : Hon Albert HO Chun-yan
Dr Hon LUI Ming-wah, SBS, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP

Public officers attending : Mr Albert LAM
Deputy Secretary for Financial Services and the Treasury
(Financial Services)

Mr Alan LO
Principal Assistant Secretary for Financial Services and the
Treasury (Financial Services)

Mr Jackie LIU
Assistant Secretary for Financial Services and the Treasury
(Financial Services)

Mr Gordon JONES, JP
Registrar of Companies

Mr Lawrence PENG
Senior Assistant Law Draftsman
Department of Justice

Attendance by invitation : Hong Kong Stockbrokers Association Limited

Mr Anthony ESPINA
Chairman

Mr Kenny LEE
Vice Chairman

The Association of International Accountants – Hong Kong Branch

Mr Tommy LOK
Chief Executive Officer

British Chamber of Commerce in Hong Kong

Mr Richard WINTER
Member

Deloitte Touche Tohmatsu

Mr Richard GEORGE
Partner

Mr Victor NG
Partner

The Chamber of Hong Kong Listed Companies

Mr Patrick SUN
Chairman, Financial and Regulatory Affairs Committee

Mr Simon YUNG
Honorary Legal Advisor

The Hong Kong Society of Financial Analysts Limited

Mr Karl LUNG, CFA
President

Hong Kong Institute of Certified Public Accountants

Mr Edward CHOW Kwong-fai
President

Mr Roger BEST
Council member and Chairman of the FRC Legislation
Working Group

Mr Paul CHAN Mo-po
Vice-President and member of the FRC Legislation Working
Group

Mr Stephen CHAN
Executive Director

Mr Tony HARROD
General Counsel

CPA Australia – Hong Kong China Division

Mr Marcellus WONG
Director of the National Board

The Chartered Institute of Management Accountants – Hong
Kong Division

Mr Albert LAW Yu-kwan
President

Mr Alex PANG
Council Member

Member of Hong Kong Institute of Certified Public
Accountants' Disciplinary Panels or Investigation Panels

Mr CHAN Sai-hoi
Certified Public Accountant

Miss Peggy LIAO Zi-yin
Solicitor

Mr Anthony WU Ting-yuk
Certified Public Accountant

Mr Charles CHOW Chan-lum
Certified Public Accountant

Mr Peter H Y WONG
Certified Public Accountant

Individual

Mr YUEN Shu-tong
Certified Public Accountant

Clerk in attendance : Miss Salumi CHAN
Chief Council Secretary (1)5

Staff in attendance : Mr KAU Kin-wah
Assistant Legal Adviser 6

Ms Connie SZETO
Senior Council Secretary (1)4

I. Confirmation of minutes of meeting

(LC Paper No. CB(1)2287/04-05

— Minutes of first meeting held on
19 July 2005)

The minutes of the meeting held on 19 July 2005 were confirmed.

II. Meeting with deputations and the Administration

- (LC Paper No. CB(1)2331/04-05(01) — Submission from the Hong Kong Stockbrokers Association Limited
- LC Paper No. CB(1)2288/04-05(01) — Submission from the Association of International Accountants – Hong Kong Branch
(Revised)
- LC Paper No. CB(1)2288/04-05(02) — Submission from British Chamber of Commerce in Hong Kong
- LC Paper No. CB(1)2288/04-05(03) — Submission from Deloitte Touche Tohmatsu
- LC Paper No. CB(1)2288/04-05(04) — Submission from the Chamber of Hong Kong Listed Companies
- LC Paper No. CB(1)2288/04-05(05) — Submission from Hong Kong Institute of Certified Public Accountants
- LC Paper No. CB(1)2288/04-05(06) — Submission from CPA Australia – Hong Kong China Division
- LC Paper No. CB(1)2288/04-05(07) — Submission from the Chartered Institute of Management Accountants – Hong Kong Division
- LC Paper No. CB(1)2288/04-05(08) — Submission from Mr CHAN Sai-hoi
- LC Paper No. CB(1)2288/04-05(31) — Submission from Mr Peter H Y WONG
- LC Paper No. CB(1)2288/04-05(09) — Submission from the Chinese General Chamber of Commerce

LC Paper No. CB(1)2288/04-05(10)	—	Submission from Mandatory Provident Fund Schemes Authority
LC Paper No. CB(1)2288/04-05(11)	—	Submission from Office of the Privacy Commissioner for Personal Data, Hong Kong
LC Paper No. CB(1)2288/04-05(12)	—	Submission from the Office of The Ombudsman
LC Paper No. CB(1)2288/04-05(13)	—	Submission from KPMG
LC Paper No. CB(1)2288/04-05(14)	—	Submission from Standing Committee on Company Law Reform
LC Paper No. CB(1)2288/04-05(15)	—	Submission from Hong Kong General Chamber of Commerce
LC Paper No. CB(1)2288/04-05(16)	—	Submission from Hong Kong Trustees Association Ltd
LC Paper No. CB(1)2288/04-05(17)	—	Submission from the Association of Chartered Certified Accountants (Hong Kong)
LC Paper No. CB(1)2288/04-05(18)	—	Submission from the Law Society of Hong Kong (Companies and Financial Law Committee and Securities Law Committee)
LC Paper No. CB(1)2288/04-05(19)	—	Submission from the Hong Kong Chinese Enterprises Association
LC Paper No. CB(1)2288/04-05(20)	—	Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies

- LC Paper No. CB(1)2288/04-05(21)(a) — Submission from Securities and Futures Commission — First submission dated 12 September 2005
- LC Paper No. CB(1)2288/04-05(21)(b) — Submission from Securities and Futures Commission — Further submission dated 14 September 2005
- LC Paper No. CB(1)2288/04-05(22) — Submission from the Hong Kong Institute of Chartered Secretaries
- LC Paper No. CB(1)2288/04-05(23) — Submission from National Institute of Accountants of Australia – China Branch
- LC Paper No. CB(1)2288/04-05(24) — Submission from Ernst and Young
- LC Paper No. CB(1)2288/04-05(25) — Submission from Hong Kong Bar Association
- LC Paper No. CB(1)2288/04-05(27) — Submission from Mr Oscar WONG Sai-hung
- LC Paper No. CB(1)2288/04-05(28) — Submission from Mr Simon YOUNG, Associate Professor, Faculty of Law, The University of Hong Kong
- LC Paper No. CB(1)2288/04-05(29) — Submission from Mr David GUNSON
- LC Paper No. CB(1)2288/04-05(30) — Submission from Dr Peter P F CHAN
- LC Paper No. CB(1)2288/04-05(36) — Summary of submissions (position as at 12:00 noon, 26 September 2005 prepared by the Legislative Council Secretariat (the Secretariat))

III. Meeting with the Administration

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|----------------------------------|---|--|
| (LC Paper No. CB(3)713/04-05 | — | The Bill |
| LC Paper No. CB(1)2288/04-05(32) | — | “Follow-up to the first meeting on 19 July 2005” prepared by the Secretariat |
| LC Paper No. CB(1)2288/04-05(33) | — | Paper provided by the Administration on “International Experience” |
| LC Paper No. CB(1)2288/04-05(35) | — | Paper provided by the Administration on “Proposed work plan”) |

2. The Bills Committee deliberated (Index of proceedings attached at **Appendix**).

(*Post-meeting note:* The revised submission from the Association of International Accountants – Hong Kong Branch (LC Paper No. CB(1)2288/04-05(01)(Revised)) and the submission from Hong Kong Stockbrokers Association Limited (LC Paper No. CB(1)2331/04-05(01)) were issued to members on 28 September 2005.)

Follow-up actions to be taken by the Administration

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3. At the request of the Bills Committee, the Administration agreed to take the following actions:

(a) Funding of the Financial Reporting Council (FRC)

To address members’ concern about the proposed funding arrangements for the FRC, the Administration was requested to take the following actions and provide written response:

- (i) 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;
- (ii) To further consider whether the proposed annual budget and reserve fund would be sufficient for the effective operation of the FRC, having regard to the costs involved in -
 - employing quality staff and experts, who had relevant experience and expertise but no conflict of interests, to undertake the investigation or enquiry work;

- undertaking investigations into large corporate scandals involving a number of listed entities; and
- any judicial review against the FRC's decisions.

(b) Composition of the FRC

Members noted that while some deputations supported 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 considered the proposal inappropriate and that investigation of auditing irregularities should be conducted by professionals with the relevant experience and expertise. In this connection, the Administration was requested to take the following actions:

- (i) To provide a paper on the criteria for appointment of FRC members; and
- (ii) To consider whether there should be provisions in the Bill specifying the criteria for appointment of lay members and other members of the FRC.

(c) Need for the establishment of the FRC

To address a member's concern on whether establishment of the FRC was the only option to improve financial reporting of listed companies, the Administration was 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 might address the concerns about insufficient resources for the FRC and overlap of investigatory functions between the SFC and the FRC. The Administration might review after a few years the need for establishing the FRC as an independent statutory body in the light of experience.

Work plan of the Bills Committee

4. Members agreed to adopt the proposed work plan provided by the Administration. The Secretariat would work out a proposed meeting schedule covering the period from November 2005 to June 2006 for members' consideration in due course. The proposed meeting schedule would be worked out on the basis of members' views expressed at the meeting held on 19 July 2005 that meetings of the Bills Committee should be held at three-week intervals.

IV. Any other business

Dates of the third and fourth meetings

5. The Chairman reminded members that the third meeting had been scheduled for Friday, 7 October 2005, at 10:45 am to meet with the Administration. Members agreed that the fourth meeting be held on Monday, 31 October 2005, at 8:30 am.

Chinese translation of written submissions

6. The Chairman informed members that the Bills Committee had received a total of 31 submissions on the Bill, of which 29 were in English. She consulted members on the need for the Secretariat to arrange Chinese translation for the submissions in English. Ms Emily LAU considered it not necessary for the Secretariat to arrange Chinese translation for the submissions. While sharing Ms LAU's view, Mr SIN Chung-kai said that such arrangement should be made if so requested by individual members of the Bills Committee.

7. Given that the Secretariat had prepared a summary of the submissions and would issue the Chinese translation of the summary to members soon, the Bills Committee agreed that subject to any views individual members might have, it was not necessary to arrange Chinese translation for the submissions in English. The Bills Committee also agreed that a circular on the subject should be issued by the Clerk to all members.

(Post-meeting note: The circular (LC Paper No. CB(1)2332/04-05) was issued by the Clerk on 28 September 2005.)

8. There being no other business, the meeting ended at 5:10 pm.

Appendix

**Proceedings of the second meeting of the
Bills Committee on Financial Reporting Council Bill
on Tuesday, 27 September 2005, at 2:30 pm
in the Chamber of the Legislative Council Building**

Time marker	Speaker	Subject(s)	Action Required
000000-000602	Chairman	Confirmation of minutes of meeting on 19 July 2005 (LC Paper No. CB(1)2287/04-05)	
000603-001045	Hong Kong Stockbrokers Association Limited (HKSAL)	Presentation of views (LC Paper No. CB(1)2331/04-05(01))	
001046-001107	Chairman	Submission from The Association of International Accountants – Hong Kong Branch (LC Paper No. CB(1)2288/04-05(01))	
001108-001159	British Chamber of Commerce in Hong Kong	Presentation of views (LC Paper No. CB(1)2288/04-05(02))	
001200-001625	Deloitte Touche Tohmatsu	Presentation of views (LC Paper No. CB(1)2288/04-05(03))	
001626-002000	The Chamber of Hong Kong Listed Companies	Presentation of views (LC Paper No. CB(1)2288/04-05(04))	
002001-002034	The Hong Kong Society of Financial Analysts Limited (HKSFAL)	Presentation of views (a) Expressed support for the Bill in principle (b) Two major concerns/views:	

Time marker	Speaker	Subject(s)	Action Required
		(i) The FRC should have prosecution and disciplinary functions to enhance deterrent effect against wrongdoings of auditors and listed entities; and (ii) There should be co-ordination between the FRC and accounting professional bodies and law enforcement agencies to avoid duplicate investigation on the same party and ensure the cost-effectiveness of FRC's work.	
002035-002515	Hong Kong Institute of Certified Public Accountants (HKICPA)	Presentation of views (LC Paper No. CB(1)2288/04-05(05))	
002516-002907	CPA Australia – Hong Kong China Division (CPAA(HKC))	Presentation of views (LC Paper No. CB(1)2288/04-05(06))	
002908-003326	The Chartered Institute of Management Accountants – Hong Kong Division (CIMA(HK))	Presentation of views (LC Paper No. CB(1)2288/04-05(07))	
003327-003429	Mr CHAN Sai-hoi	Presentation of views (LC Paper No. CB(1)2288/04-05(08))	

Time marker	Speaker	Subject(s)	Action Required
003430-003924	Miss Peggy LIAO Zi-yin	Presentation of views (a) Expressed support for the establishment of the FRC (b) Five major concerns/suggestions: (i) The proposal that the majority of FRC members should be lay persons might result in a lack of members with relevant knowledge and experience in financial and accounting issues for undertaking investigation/enquiry into auditing irregularities and financial non-compliances; (ii) Suggested that accountants be appointed members of the FRC for handling complicated cases of auditing irregularities; (iii) The criteria for appointment of FRC members were not specified in the Bill (clause 7) but members were subject to stringent requirement on disclosure of interests (clause 52) and non-compliance would lead to severe sanctions.	

Time marker	Speaker	Subject(s)	Action Required
		Qualified and suitable candidates might be discouraged to take up appointment as FRC members; (iv) The consultation requirements (clauses 29 and 43) with relevant regulatory bodies would undermine the independence of the FRC. It was unclear whether these bodies could intervene in the process of FRC's investigation; and (v) The FRC's role was confined to investigation (clause 9). The FRC should model on the set-up of the FRC in the United Kingdom (UK) to appoint a disciplinary tribunal for hearing and imposing sanctions on auditing irregularities and financial non-compliances.	
003925-004244	Mr Anthony WU Ting-yuk	Presentation of views (a) Expressed support for the establishment of the FRC (b) Three major concerns/suggestions:	

Time marker	Speaker	Subject(s)	Action Required
		(i) On the publication of investigation/enquiry report by the FRC, clauses 35 and 47 should include a requirement for the FRC to inform the affected parties of its intention to publish the report and provide the right for these parties to make representations. The FRC was obliged to take into account the representations in deciding whether or not the concerned report should be published; (ii) While an FRC investigation report could be used as the basis for initiating court or disciplinary proceedings, it was inappropriate for such report to have the status of being “admissible as evidence of the facts stated in the report” (clauses 35(5) and 47(5)); and (iii) It was inappropriate to disclose FRC investigation information or report to the Official Receiver or a liquidator (clause 51(3)(b)(ix) and (c)). The concerned	

Time marker	Speaker	Subject(s)	Action Required
		information might be used in pursuit of litigation against the auditors.	
004245-004505	Mr Charles CHOW Chan-lum	Presentation of views Four major views/suggestions: (a) There appeared to be a lack of interaction between the Audit Investigation Board (AIB) and the Investigation Panel of the HKICPA. This might lead to overlap in resources of the two bodies; (b) The proposed lean structure of the AIB (a minimum of two members as provided in clause 22(2)) would pose difficulty for it to undertake investigations into large corporate scandals; (c) Suggested that more than one accountant should be appointed as members of the AIB to ensure effective investigation of auditing irregularities by the professionals; and (d) Interpretation of financial reporting standards and ethical standards of the accounting profession should be left to the professional body (i.e. the HKICPA).	

Time marker	Speaker	Subject(s)	Action Required
004506-004807	Mr Peter H Y WONG	Presentation of views (LC Paper No. CB(1)2288/04-05(31))	
004808-005131	Mr YUEN Shu-tong	Presentation of views (a) Supported the establishment of the FRC (b) Four major concerns/suggestions: (i) The separation of investigation and disciplinary powers between the FRC and the HKICPA might result in overlap of investigatory function, delay in imposing sanction on wrongdoers, lack of transparency in the disciplinary process, and non-action by the disciplinary body; (ii) The proposed annual budget of \$10 million was insufficient for the effective operation of the FRC; (iii) There was concern that the HKICPA would increase the level of its membership fees for recovering the financial contribution to the FRC. Suggested that the FRC should be	

Time marker	Speaker	Subject(s)	Action Required
		entirely funded by the Government; and (iv) The Bill appeared to only penalize auditors and accountants of listed companies. It should be pointed out that financial reports of companies were approved by directors.	
005132-005553	Chairman Administration	(a) Brief response by the Administration on deputations' views (b) Administration's undertaking to provide written responses to deputations' submissions before the next meeting to be held on 7 October 2005	
005554-010113	Ms Emily LAU	<u>Funding of the FRC</u> Concern that the proposed annual budget of \$10 million and reserve fund of \$10 million would be insufficient for the effective operation of the FRC	
010114-010343	Mr Anthony WU Ting-yuk	(a) The proposed funding might not be sufficient (b) The FRC should work out its budget taking into account the need for it to employ quality staff and experts who had relevant experience and expertise to undertake the investigation and enquiry work	

Time marker	Speaker	Subject(s)	Action Required
010344-010940	CIMA(HK)	Concern about inadequate funding for the FRC, in particular, the proposed annual budget of \$10 million would not be sufficient for the FRC to carry out all its functions effectively	
010941-011363	Mr Peter H Y WONG	(a) It was important that the budget of the FRC was under the control of the stakeholders, which should contribute to FRC's funding (b) Suggested that the FRC could start with the proposed annual budget as a trial. In the event of shortfall, the FRC would approach the four parties (i.e. the HKICPA, the Securities and Futures Commission (SFC), the Hong Kong Exchanges and Company Limited (HKEx), and the Government) for additional financial contribution	
011364-011419	HKICPA	(a) Considered the proposed funding arrangements for the FRC appropriate (b) There were provisions in the Bill empowering the FRC to recover the investigation and enquiry costs from the convicted parties	

Time marker	Speaker	Subject(s)	Action Required
011420-011557	CIMA(HK)	(a) The budget of the FRC should demonstrate FRC's independence and enable it to carry out its functions in an effective and efficient manner (b) Enquiry on the basis on which the proposed annual budget of the FRC was worked out, in particular, whether reference had been made to similar bodies in other jurisdictions	
011558-011736	HKSFAL	There were strong justifications to provide adequate funding for the FRC as effective operation of the FRC would deter auditing irregularities, and enhance investor protection and confidence in the financial market of Hong Kong	
011737-011917	CPAA(HKC)	(a) The proposal for the Government, the HKICPA, the SFC and the HKEx to share the funding of the FRC was appropriate (b) The annual budget of \$10 million should be used for normal operation of the FRC. The investigation/enquiry costs should be funded by a levy from listed companies (c) The FRC might solicit the assistance of retired audit professionals by inviting them to take up volunteer advisory roles	

Time marker	Speaker	Subject(s)	Action Required
011918-012024	HKSAL	(a) The funding for the FRC should come from auditors and listed entities (b) The FRC could make reference to the operation of the Investor Compensation Company where its budget was to cover the ordinary administrative expenses. The Company could seek funding from the Investor Compensation Fund for undertaking investigations into compensation claims	
012025-012213	Ms Emily LAU	Request for the Administration to further consider whether the proposed annual budget and reserve fund would be sufficient for the effective operation of the FRC, having regard to the costs involved in: (a) employing quality staff and experts, who had relevant experience and expertise but no conflict of interests, to undertake the investigation or enquiry work; (b) undertaking investigations into large corporate scandals involving a number of listed entities; and (c) any judicial review against the FRC's decisions.	Administration to take action under paragraph 3(a)(ii) of the minutes

Time marker	Speaker	Subject(s)	Action Required
012214-012352	Ms Emily LAU HKICPA	(a) Enquiry about the source of funding for the HKICPA to make the financial contribution to the FRC (b) The HKICPA's advice that it would impose a special levy on accounting firms involved in audit work of listed companies to fund the contribution to the FRC	
012353-012728	Ms Emily LAU Administration	(a) Enquiry on the basis for working out the proposed annual budget and reserve fund of the FRC and request for the Administration to provide a paper on the subject (b) The Administration's advice that: (i) in working out the proposed annual budget for the FRC, reference was made to the expenses incurred by the HKICPA in undertaking investigation and disciplinary functions; (ii) the annual expenses incurred by the HKICPA for the two functions mentioned in item (b)(i) above in 2003 and 2004 ranged from \$11 million to \$14 million. Given that the FRC's function	The Administration to take action under paragraph 3(a)(i) of the minutes

Time marker	Speaker	Subject(s)	Action Required
		was purely investigatory, it was expected that it would incur a lower level of expenses; (iii) the cost for office accommodation of the FRC would be funded by the Companies Registry Trading Fund; (iv) there were provisions in the Bill for the FRC to recover the investigation/enquiry costs from the convicted parties; and (v) the Administration would keep in view FRC's funding requirements and work out the long term funding arrangements with the SFC, the HKEx and the HKICPA in the third year of operation of the FRC.	
012729-013414	Mr Ronny TONG	(a) Member's concern about the following two points: (i) Insufficient funding for the FRC, given the need for it to employ quality staff and experts with the relevant experience and expertise but without conflict of interests to undertake	The Administration to take action under paragraph 3(a)(ii) of the minutes

Time marker	Speaker	Subject(s)	Action Required
		investigation or enquiry work; and (ii) The lack of connection between the work of the FRC and subsequent disciplinary and prosecution work undertaken by the HKICPA and the law enforcement agencies (b) Member's view that the FRC should undertake investigation into suspected auditing irregularities involving public interest, and it was important to set out such purpose clearly	
013415-013608	Mr Charles CHOW Chan-lam	Concern about insufficient funding for the FRC	
013609-013649	Mr Anthony WU Ting-yuk	It was important for the FRC to employ quality staff and experts with the relevant experience and expertise to undertake investigation or enquiry work	
013650-014144	Dr Philip WONG	<u>Need for the establishment of the FRC</u> (a) Member's concern about the following two points: (i) Whether establishment of the FRC was the only option to improve financial reporting of listed companies; and	

Time marker	Speaker	Subject(s)	Action Required
		(ii) Insufficient funding for the FRC (b) Member's views, as follows: (i) Members of the AIB should be drawn from a panel of suitable candidates; and (ii) The parties under investigation by the AIB should be given the right to object to the participation of the AIB members who had conflict of interests	
014145-015547	Mr Peter H Y WONG Dr Philip WONG HKICPA Administration Mr Ronny TONG	(a) Background and purpose of the establishment of the FRC (b) HKICPA's advice on the benefits of the proposal to establish the FRC as follows: (i) The establishment of the FRC would enhance effectiveness, transparency and accountability of the self-regulatory regime for the accounting profession and keep it on par with international standards; and (ii) The investigation and enquiry powers of the FRC would address the existing inadequacies of	

Time marker	Speaker	Subject(s)	Action Required
		the Professional Accountants Ordinance (PAO), i.e. the lack of investigation power of HKICPA over non-HKICPA members and listed companies' financial reports, as well as concerns about prolonged investigations and possible conflict of interests in investigations	
015548-015637	Ms Emily LAU	(a) Expressed support for the establishment of the FRC (b) Request for the Administration to address the concern about insufficient funding for the FRC	Administration to take action under paragraph 3(a) of the minutes
015638-020914	Ms Emily LAU Administration HKICPA HKSAL	<u>Composition of the FRC</u> (a) Member's view that persons with public credibility and the relevant professional knowledge but had no conflict of interests should be eligible for appointment as FRC members (b) Member's enquiry on the criteria for appointment of FRC members and suggestion on whether there should be provisions in the Bill specifying the criteria for appointment of lay members and other members of the	The Administration to take action under paragraph 3(b) of the minutes

Time marker	Speaker	Subject(s)	Action Required
		FRC (c) HKSAL's suggestion that investors and market participants, who were the ultimate users of companies' financial statements, might be appointed as members of the FRC (d) HKICPA's view that: (i) the proposed composition of the FRC with the majority of members being lay persons was appropriate and would enhance the public oversight of the accounting profession; (ii) the proposal for each of the three bodies concerned (i.e. HKEx, the HKICPA, and the SFC) to nominate one member to be appointed to the FRC would facilitate co-ordination of FRC's work with the three bodies and avoid overlap in investigatory functions; and (iii) it was important for the Administration to ensure that membership of the FRC would include a balanced representation of the interested parties	

Time marker	Speaker	Subject(s)	Action Required
		(e) The Administration's advice that: (i) membership of the FRC would include a wide and balanced composition; (ii) the Administration would consider the background, experience and expertise of the candidates in considering appointments of FRC members; and (iii) clause 52 required disclosure of interests relating to the work of the FRC to avoid possible conflict of interests of FRC members	
020915-021941	Chairman Administration Ms Emily LAU	<u>Matters arising from the meeting on 19 July 2005</u> (LC Paper No. CB(1)2288/04-05(32)) (a) Administration's briefing on the information paper on "International experience" (LC Paper No. CB(1)2288/04-05(33)) (b) Member's enquiries, as follows: (i) Whether the proposed	

Time marker	Speaker	Subject(s)	Action Required
		set-up of the FRC was based on the set-up of similar bodies in other jurisdictions; and (ii) Comparison of the investigation powers of the FRC with those of the HKICPA and similar bodies in other jurisdictions (c) The Administration's responses, as follows: (i) There was a lack of effective powers under the PAO to compel non-HKICPA members to provide information for an investigation, while the Bill proposed to empower the FRC to effectively require other persons, such as directors and officers of listed corporations, to provide information; and (ii) While the investigatory powers of the Accountancy Investigation and Discipline Board in the UK and the Public Company Accounting Oversight Board in the United States generally applied only to an accountant or	

Time marker	Speaker	Subject(s)	Action Required
		associated persons, investigatory powers of the FRC, which were comparable to those of the Companies Auditors and Liquidators Disciplinary Board in Australia, would cover a person other than the auditor/accountant concerned	
021942-022129	Mr Ronny TONG Administration	The Administration's undertaking to provide papers setting out the major proposals on each component of the Bill and addressing the concerns and views raised by members and deputations	
022130-022658	Dr Philip WONG Administration	<u>Need for the establishment of the FRC</u> (a) Member's suggestion for the SFC to set up a new division to take up the proposed functions of the FRC for an initial period of a few years. The suggestion might address the concerns about insufficient resources for the FRC and overlap of investigatory functions between the SFC and the FRC. The Administration might review after a few years the need for establishing the FRC as an independent statutory body in the light of experience	The Administration to consider the suggestion under paragraph 3(c) of the minutes

Time marker	Speaker	Subject(s)	Action Required
		(b) The Administration's advice that: (i) the FRC was built upon the existing self-regulatory regime of the accounting profession; and (ii) the SFC and the FRC had different functions	
022659-023940	Chairman Administration Clerk Mr Ronny TONG Ms Emily LAU Mr SIN Chung-kai	(a) Work plan (i) Administration's briefing on the paper on "Proposed work plan" (LC Paper No. CB(1)2288/04-05(35)) (ii) The Administration's undertakings, as follows: ● To provide written response to the major points raised by the deputations before the next meeting to be held on 7 October 2005; and ● To provide papers setting out the major proposals on each component of the Bill and addressing concerns and views raised by members	

Time marker	Speaker	Subject(s)	Action Required
		and deputations on the proposals (b) Dates of the third and fourth meetings (c) Chinese translation of written submissions	

Council Business Division 1
Legislative Council Secretariat
24 October 2005