

October 27, 2009

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No. of pages: 6

Dear Sirs,

**Re: Consultation Paper on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong**

On behalf of the Professional Commons, we submit our views on the above subject.

Yours faithfully,  
Frankie Yan  
Secretary



## Part A General Information of the Respondent

All fields are mandatory, except the fields with an asterisk (\*) if you are an individual respondent.

<b>Name / Company Name*</b>	:	The Professional Commons 公共專業聯盟
<b>Contact Person:*</b>	:	Frankie Yan
<b>Title*</b>	:	Secretary
<b>Phone Number</b>	:	<input type="text"/>
<b>E-mail Address</b>	:	<input type="text"/>

If you **do not wish** to disclose the above information to the public, please check the box here:

I do not wish to disclose the information above.



## Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please make your comments by replying to questions below against proposed changes discussed in the Consultation Paper at the hyperlink:

[http://www.hkex.com.hk/consul/paper/cp200908\\_e.pdf](http://www.hkex.com.hk/consul/paper/cp200908_e.pdf).

Where there is insufficient space provided for your comments, please attach additional pages.

### *Consultation Questions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong*

1. Do you agree with the proposed framework?

Yes.

No.

Please state the reasons for your views.

1. International Standard

Should follow the treatment adopted in the New York Stock Exchange, London Stock Exchange, Tokyo Stock Exchange and Australia Stock Exchange by requiring “approved” Mainland audit firms to register under the PAO or other relevant Hong Kong legislations so that the firms will be oversight by Hong Kong regulatory bodies.

Para. 12(f) of the Consultancy Paper mentioned “the SFC will exercise its waiver power to allow “approved” Mainland audit firms to act as reporting accountants under para. 43 of the Third Schedule to the Companies Ordinance.” We do not agree such an important issue, being affecting the future listing qualities of Hong Kong’s IPOs and listed issuers, to be effected by amending the Listing Rules and granting waivers by the SFC. In the above mentioned overseas stock exchanges, the reporting accountants or auditors of those companies listed on the respective stock exchanges are subject to oversight by their respective authorities. They do not give up the oversight authorities to a third party.



Though Hong Kong is part of China, the issue is definitely within the “two system” concept.

2. Quality Control / Practice Review

We note para. 63 of the Consultancy Paper mentioned that “ However, there was no available information concerning the equivalence on the practice review quality control systems and the monitoring and continuing oversight of audit firms in the Mainland.”

Para. 12 (c ) of the Consultancy Paper mentioned that one of the two pre-conditions for the scheme is “overall equivalence of the quality assurance or practice review systems over the quality of work of audit firms in Hong Kong and the Mainland based on an assessment made on behalf of the Exchange by HKICPA”.

As the quality control and practice review adopted by the MOF on the “approved” Mainland audit firms are still uncertain, the proposed framework is not yet mature for market consultancy.

**Moreover, whose responsibility to assure to the market that the level of quality assurance equivalence has been achieved, and how this will be conveyed to the market ?**

3. Convergence of CASBE with HKFRS

We understand that the CASBE have not yet been fully converged with the HKFRS. Accordingly, this is not yet an appropriate time to introduce the scheme.

4. Sanctions against Mainland audit firms

The paper does not spell out clearly the disciplinary action or sanctions against Mainland audit firms that are not acting properly. It states that Mainland audit firms would be subject to appropriate sanctions as determined by the MOF and CSRC. Without a clear understanding about the regulatory regime of Mainland auditors/reporting accountants and what appropriate sanctions can be applied against them, sufficient comfort will not be given to the public or investors as to the quality, standard and reliability of Mainland auditors.



5. Role of sponsors

It would be difficult and too high a risk for Hong Kong sponsors to give the required declaration (para. (c) of Appendix 19 of the Listing Rules) that, “ ... having made reasonable due diligence inquiries, we have reasonable grounds to believe and do believe (to the standard reasonably expected of a sponsor which is not itself expert in the matters dealt with in the relevant expert section) that: ... (iii) the expert is appropriately qualified, experienced and sufficiently resourced to give the relevant opinion; ...”

Although sponsors, in performing their own due diligence, will ask reporting accountants to provide information on the experience and resources of the firm as well as the qualification and experience of the individuals in the engagement team, sponsors would not feel comfortable to rely on such information provided by a firm registered in a jurisdiction that they are not familiar with. The level of confidence in, and the reliability of, the relevant information/confirmation provided by a Mainland audit firm with which HK sponsors are not familiar would not be comparable to similar information provided by a Big 4 or an international CPA firm. It would also be difficult for sponsors to perform further due diligence checking on Mainland CPA firms.

It is also not clear whether and how investors/sponsors can take legal action against Mainland audit firms, or the individuals performing annual audit or preparing the accountants' report for IPOs, in the event that they act improperly. The paper seems to suggest that only the Mainland regulatory bodies can take action. It is suggested that if a Mainland CPA firm is the sole auditor, investors in HK (or other relevant parties) should still be able to take the same action against it as they could do for an HK CPA firm.

2. If the proposed framework is adopted, do you agree that the effective commencement date for the new rules should be **1 January 2010** and should apply to annual accounting periods beginning on or after **1 January 2010**?

Yes.



X No.

Please state the reasons for your views.

If the proposed framework is adopted (even though we object to the proposal), it should be introduced only when the market is clearly being informed, and accept, that both pre-conditions referred to in para. 12 (c) of the Consultancy Paper are fulfilled. In particular, we need the assurance from the HKICPA, expressively and openly, that the level of quality assurance equivalence has been achieved in Hong Kong and the PRC.

3. What are your views on the likely effect of the proposed new Rules to implement the framework (see **Appendix 6** to the Consultation Paper)? Please provide qualitative and quantitative data. Please state the reasons for your views.

Please refer to Box 1 above.

4. Do you have any other comments or suggestions or alternative approaches?

Yes.

X No.

Please state the reasons for your views.

- End -