

立法會
Legislative Council

LC Paper No. CB(1)1159/17-18
(These minutes have been seen
by the Administration)

Ref : CB1/BC/4/17/2

Bills Committee on Financial Reporting Council (Amendment) Bill 2018

**Minutes of the second meeting on
Tuesday, 20 March 2018, at 9:00 am
in Conference Room 2 of the Legislative Council Complex**

Members present : Hon WONG Ting-kwong, GBS, JP (Chairman)
Hon Kenneth LEUNG (Deputy Chairman)
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Kin-por, GBS, JP
Hon Mrs Regina IP LAU Suk-ye, GBS, JP
Hon WU Chi-wai, MH
Hon Charles Peter MOK, JP
Hon Christopher CHEUNG Wah-fung, SBS, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon CHAN Chun-ying
Hon CHEUNG Kwok-kwan, JP
Hon Kenneth LAU Ip-keung, BBS, MH, JP

Members absent : Hon James TO Kun-sun
Hon Dennis KWOK Wing-hang

Public officers attending : Ms NG Ching-ching, Winnie, JP
Deputy Secretary for Financial Services and the
Treasury (Financial Services)³

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

Mr CHAN Fong-ming
Assistant Secretary for Financial Services and the
Treasury (Financial Services)(4)1

Ms CHEUNG Mee-bo, Mabel
Senior Assistant Law Draftsman (LP)
Department of Justice

Ms CHAN Ka-man, Carmen
Senior Government Counsel
Department of Justice

Attendance by invitation : Mr Paul F WINKELMANN
Chief Executive Officer
Financial Reporting Council

Ms Florence WONG
Senior Director (Investigation & Compliance)
Financial Reporting Council

Deputations

Hong Kong Institute of Certified Public Accountants

Mr DING Raphael
Chief Executive & Registrar

CPA Australia

Mr AU Ivan
Divisional President 2017, Greater China

Individual

Mr LEE Lapman

Mid-tier Firm Alliance

Mr CHENG Chung-ching Raymond
Convener

Crowe Horwath (HK) CPA Limited

Mr Charbon LO
Director

Deloitte Touche Tohmatsu

Mr GEORGE Richard-john Weir
Representative

BDO Limited

Mr CHAN Clement
Managing Director, Assurance

KPMG

Ms CHEUNG Wing-han
Partner

Hong Kong Take the Lead Institute

Mr CHAN Ka-kin
Director

Baker Tilly Hong Kong Limited

Mr CHOI Kwong-yu, Danny
Director, Audit and Assurance Services

PricewaterhouseCoopers

Ms FONG Wan-huen Loretta
Partner

Ernst & Young

Mr LEUNG Siu-tung, Anthony
Partner & Assurance Leader, Hong Kong & Macau

The Society of Chinese Accountants & Auditors

Mr YU Kwong-man
Vice President

Asian Corporate Governance Association

Mr ALLEN Jamie
Secretary General

Individual

Mr LEUNG Kwok-hung

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

Staff in attendance : Miss Evelyn LEE
Assistant Legal Adviser 10

Mr Hugo CHIU
Senior Council Secretary (1)4

Ms Sharon CHAN
Legislative Assistant (1)4

Ms Vivian CHAN
Clerical Assistant (1)4

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I Meeting with the Administration and deputations

Meeting with deputations/individuals and the Administration

Submissions from deputations/individuals attending the meeting

(LC Paper No. CB(1)687/17-18(04) — Submission from Mid-tier
Firm Alliance (Chinese
version only)

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- LC Paper No. CB(1)687/17-18(05) — Submission from Hong Kong Institute of Certified Public Accountants (English version only)
- LC Paper No. CB(1)687/17-18(06) — Submission from Asian Corporate Governance Association (English version only)
- LC Paper No. CB(1)687/17-18(07) — Submission from Deloitte Touche Tohmatsu (English version only)
- LC Paper No. CB(1)687/17-18(08) — Submission from PricewaterhouseCoopers (English version only)
- LC Paper No. CB(1)687/17-18(10) — Submission from Ernst & Young (English version only)
- LC Paper No. CB(1)687/17-18(12) — Submission from BDO Limited (English version only)
- LC Paper No. CB(1)687/17-18(14) — Submission from KPMG (English version only)
- LC Paper No. CB(1)687/17-18(15) — Submission from Hong Kong Take the Lead Institute (Chinese version only)
- LC Paper No. CB(1)720/17-18(01) — Submission from CPA Australia Ltd (English version only)
- LC Paper No. CB(1)720/17-18(02) — Submission from Crowe Horwath (HK) CPA Limited (Chinese version only)
- LC Paper No. CB(1)720/17-18(04) — Speaking note of Mr Charbon LO, Director of Crowe Horwath (HK) CPA Limited (Chinese version only)

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LC Paper No. CB(1)740/17-18(01) — Speaking note of the representative of The Society of Chinese Accountants & Auditors (Chinese version only)

LC Paper No. CB(1)740/17-18(02) — Speaking note of the representative of Baker Tilly Hong Kong Limited (English version only))

Submissions from deputations/individuals not attending the meeting

(LC Paper No. CB(1)687/17-18(03) — Submission from The Hong Kong Institute of Chartered Secretaries (English version only)

LC Paper No. CB(1)687/17-18(09) — Submission from Securities and Futures Commission (English version only)

LC Paper No. CB(1)687/17-18(11) — Submission from Consumer Council (English version only)

LC Paper No. CB(1)687/17-18(13) — Submission from The Association of Chartered Certified Accountants (English version only)

LC Paper No. CB(1)687/17-18(16) — Submission from Hong Kong Bar Association (English version only)

LC Paper No. CB(1)687/17-18(17) — Submission from Mandatory Provident Fund Schemes Authority (English version only)

LC Paper No. CB(1)687/17-18(18) — Submission from Hong Kong Investment Funds Association (English version only)

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LC Paper No. CB(1)720/17-18(03) — Submission from USS Investment Management Ltd (English version only)

Meeting with the Administration

Matters arising from the previous meeting

(LC Paper No. CB(1)687/17-18(01) — List of follow-up actions arising from the discussion at the meeting on 13 February 2018

LC Paper No. CB(1)687/17-18(02) — Administration's response to issues raised at the meeting on 13 February 2018)

Other relevant papers

(LC Paper No. CB(3)287/17-18 — The Bill

File Ref: ACCT/2/1/2C — Legislative Council Brief

LC Paper No. LS25/17-18 — Legal Service Division Report

LC Paper No. CB(1)591/17-18(01) — Marked-up copy of the Financial Reporting Council (Amendment) Bill 2018 prepared by the Legal Service Division (Restricted to members only)

LC Paper No. CB(1)590/17-18(01) — Background brief prepared by the Legislative Council Secretariat)

The Chairman welcomed representatives of the Administration and deputations to the meeting. He reminded the deputations that their written submissions provided to the Bills Committee and views presented at the meeting would not be covered by the protection and immunity provided under the Legislative Council (Powers and Privileges) Ordinance (Cap. 382).

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Discussion

2. Ms Starry LEE declared that she was a member of the Hong Kong Institute of Certified Public Accountants and an employee of one of the "Big Four" accounting firms.
3. The Bills Committee received views from 15 deputations/individuals attending the meeting, and noted the 8 written submissions provided by organizations/individuals which/who had not attended the meeting.
4. The Bills Committee deliberated (Index of proceedings attached at **Appendix**).

Follow-up actions to be taken by the Administration

Financial arrangement of the Financial Reporting Council

5. The Administration was requested to consider members' suggestion that the Government should bear part of the expenditure of the Financial Reporting Council ("FRC") under the new regulatory regime for auditors of public interest entities ("PIE auditors"), including a member's proposal that the Government should provide a seed money of around \$600 million to support FRC's operation in the initial years and to subsidize part of the proposed levies payable to FRC.
6. According to the Administration, contributions from sellers and purchasers in securities transactions, PIEs and PIE auditors for funding the post-reform FRC had been changed from equal sharing among the three parties as proposed in the public consultation in 2014 to the ratio of 50:25:25 in the Financial Reporting Council (Amendment) Bill 2018 ("the Bill"). The Administration was requested to explain the rationale for the change and confirm whether and how the securities industry and local investors have been consulted on the change.

Disciplinary mechanism of and pecuniary penalty imposed by the Financial Reporting Council

7. The Administration was requested to explain FRC's disciplinary processes including the factors to be considered by FRC before initiating the disciplinary processes, and the parties (e.g. PIE auditors and their responsible persons) to be subject to the disciplinary processes.
8. Under the Bill, FRC was statutorily required to issue guidelines to indicate the manner in which it exercises its power to order a PIE auditor or

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responsible person to pay a pecuniary penalty ("the Guidelines"). The Administration was requested to provide information on:

- (a) the progress in preparing the Guidelines including whether FRC would issue the Guidelines prior to the proposed commencement of the Bill on 1 August 2019; and
- (b) outlines of the Guidelines.

9. The Administration was requested to provide information on the pecuniary penalty (including the maximum limit if applicable) imposed by overseas PIE auditor oversight bodies including the major member jurisdictions of the International Forum of Independent Audit Regulators (such as the United States, the United Kingdom, Australia, Singapore and Canada).

(Post meeting note: The Administration's written responses were issued to members vide LC Paper Nos. CB(1)771/17-18(01) (for follow-up actions in paragraphs 5 to 8) and CB(1)1062/17-18(01) (for the follow-up action in paragraph 9) on 9 April 2018 and 4 June 2018 respectively.)

II Any other business

Date of next meeting

10. The Chairman reminded members that the next meeting would be held on 10 April 2018 at 10:45 am.

11. There being no other business, the meeting ended at 11:23 am.

Council Business Division 1
Legislative Council Secretariat
21 June 2018

**Proceedings of the second meeting of
the Bills Committee on Financial Reporting Council (Amendment) Bill 2018
on Tuesday, 20 March 2018, at 9:00 am
in Conference Room 2 of the Legislative Council Complex**

Time Marker	Speaker	Subject(s)	Action Required
Agenda item I — Meeting with the Administration and deputations			
Presentation of views by deputations/individuals and the Administration's responses			
000445 – 000930	Chairman	Introductory remarks	
000931 – 001437	Chairman Hong Kong Institute of Certified Public Accountants ("HKICPA")	Presentation of views [LC Paper No. CB(1)687/17-18(05)]	
001438 – 001710	Chairman CPA Australia	Presentation of views [LC Paper No. CB(1)720/17-18(01)]	
001711 – 001716	Chairman Mr LEE Lapman	Mr LEE had not expressed any views	
001717 – 002217	Chairman Mid-tier Firm Alliance	Presentation of views [LC Paper No. CB(1)687/17-18(04)]	
002218 – 002740	Chairman Crowe Horwath (HK) CPA Limited	Presentation of views [LC Paper No. CB(1)720/17-18(02) and [LC Paper No. CB(1)720/17-18(04)]	
002741 – 003007	Chairman Deloitte Touche Tohmatsu	Presentation of views [LC Paper No. CB(1)687/17-18(07)]	
003008 – 003029	Chairman BDO Limited	Presentation of views [LC Paper No. CB(1)687/17-18(12)]	
003030 – 003042	Chairman KPMG	Presentation of views [LC Paper No. CB(1)687/17-18(14)]	
003043 – 003451	Chairman Hong Kong Take the Lead Institute	Presentation of views [LC Paper No. CB(1)687/17-18(15)]	

Time Marker	Speaker	Subject(s)	Action Required
003452 – 003706	Chairman Baker Tilly Hong Kong Limited	Presentation of views [LC Paper No. CB(1)740/17-18(02)]	
003707 – 004051	Chairman PricewaterhouseCoopers	Presentation of views [LC Paper No. CB(1)687/17-18(08)]	
004052 – 004408	Chairman Ernst & Young	Presentation of views [LC Paper No. CB(1)687/17-18(10)]	
004409 – 004609	Chairman The Society of Chinese Accountants & Auditors	Presentation of views [LC Paper No. CB(1)740/17-18(01)]	
004610 – 004855	Chairman Asian Corporate Governance Association	Presentation of views [LC Paper No. CB(1)687/17-18(06)]	
004856 – 011153	Chairman Mr WU Chi-wai Mrs Regina IP Ms Starry LEE Administration	<p>Declaration of interest by Ms LEE</p> <p><u>Approach in reforming the regulatory regime for auditors of public interest entities</u></p> <p>Mr WU's enquiry about differences (including the funding mechanism and composition of the Financial Reporting Council ("FRC")) between adopting the standard of the International Forum of Independent Audit Regulators ("IFIAR") and the regulatory equivalence of the European Commission ("the EC equivalence") in Hong Kong's regulatory regime for auditors of public interest entities ("PIE auditors").</p> <p>Mrs IP's views that the Administration should elaborate on the respective benefits for Hong Kong in joining IFIAR and adopting the EC equivalence.</p> <p>The Administration responded as follows:</p> <p>(a) the public consultation in 2014 showed support for Hong Kong to join IFIAR. There was no consensus on whether Hong Kong should aim to obtain the EC equivalence in the regulatory regime for PIE auditors;</p>	

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		<p>(b) one of the objectives of the Financial Reporting Council (Amendment) Bill 2018 ("the Bill") was to enable Hong Kong to join IFIAR; and</p> <p>(c) while obtaining the EC equivalence might benefit Hong Kong (e.g. enhancing Hong Kong's cooperation with the European Union in cross-border auditor regulation), it was noted that the accounting industry was opposed to some of the requirements concerned including the requirement that all members of the governing board of the auditor regulatory body had to be non-practitioners.</p> <p><u>Regulatory power of the Financial Reporting Council</u></p> <p>Enquiry by Mr WU and Ms LEE about how FRC could maintain consistency in the regulation of registered PIE auditors (i.e. local auditors to be registered by the Hong Kong Institute of Certified Public Accountants ("HKICPA")) and recognized PIE auditors (i.e. overseas auditors to be recognized by FRC).</p> <p>The Administration advised that:</p> <p>(a) under the new regime, FRC's regulatory powers for inspection, investigation and discipline over registered PIE auditors would be equally applicable to recognized PIE auditors;</p> <p>(b) the range of disciplinary sanctions available to FRC against recognized PIE auditors and registered PIE auditors would be the same; and</p> <p>(c) there must be a regulatory cooperation agreement between FRC and the corresponding independent overseas regulator before FRC might recognize the overseas auditor concerned.</p>	

Time Marker	Speaker	Subject(s)	Action Required
		<p data-bbox="624 264 1230 338"><u>Financial arrangement of the Financial Reporting Council</u></p> <p data-bbox="624 376 1121 409">Mrs IP's enquiry and views as follows:</p> <p data-bbox="624 450 1230 555">(a) how the level of levy for PIEs (i.e. 4.2% of annual listing fee for a calendar year) was determined; and</p> <p data-bbox="624 595 1230 813">(b) the proposed funding mechanism was unfair to PIE auditors. The share of PIEs' contributions to the funding of the post-reform FRC should be increased. The Government should also bear part of FRC's expenditure.</p> <p data-bbox="624 853 1230 1216">Ms LEE shared the industry's concern about the proposed levy on PIE auditors. While she agreed with the principle for FRC to be operationally independent of the Government, financial independence was not an essential prerequisite. Hence the Administration should bear part of the expenditure of the post-reform FRC. Such an arrangement could help relieve the financial burden of PIE auditors.</p> <p data-bbox="624 1256 1166 1290">The Administration responded as follows:</p> <p data-bbox="624 1330 1230 1839">(a) the "user pays" principle, which other financial regulators in Hong Kong had adopted, applied in the proposed funding mechanism. The Government was aware of the concern expressed by some deputations and the need for the post-reform FRC to be provided with adequate funding in order to prepare for the transition to the new regime and to discharge its full range of statutory functions. The Government would carefully consider members' suggestion before finalizing the funding mechanism of the post-reform FRC; and</p> <p data-bbox="624 1879 1230 2058">(b) the level of levy for PIEs had been determined based on the estimated expenditure of the post-reform FRC and the share (i.e. 25%) of PIE's contributions to the funding of FRC, and with reference</p>	

Time Marker	Speaker	Subject(s)	Action Required
		<p>to past statistics of annual listing fees paid by PIEs.</p> <p><u>Composition of the Financial Reporting Council</u></p> <p>Mrs IP did not agree that all directors of FRC should be non-practitioners.</p> <p>Ms LEE shared some deputations' view that at least one-third of FRC's directors should be practitioners as this would help the work of FRC.</p> <p>The Administration responded as follows:</p> <p>(a) Financial Reporting Council Ordinance (Cap. 588) stipulated that FRC was to be composed of a majority of "lay persons" (i.e. non-accountants). The Bill had relaxed the requirement by replacing the requirement of "lay persons" with "non-practitioners". The definition of "non-practitioner" meant an individual who was not, or had not at any time within the previous three years been, a certified public accountant (practising), or a partner, director, agent or employee of a practice unit. The new requirement would enable persons with knowledge and expertise in PIE engagements to be appointed as directors of FRC; and</p> <p>(b) the Government noted that some deputations were of the view that the post-reform FRC should consist of more practitioners on the ground that they possessed more current and up-to-date accounting/audit knowledge. The Government further noted that the accounting industry had diverse views on the matter. The Government would maintain the proposal based on the 2014 public consultation exercise which would strike an appropriate balance.</p>	

Time Marker	Speaker	Subject(s)	Action Required
011154 – 012136	Chairman Mr CHAN Chun-ying Administration	<p>Mr CHAN's views as follows:</p> <ul style="list-style-type: none"> (a) as the estimated budget of the post-reform FRC consisted of one-off and recurrent expenditure, the Administration should consider whether it should take up the one-off expenditure and leave the accounting industry and PIEs to share FRC's recurrent expenditure; (b) whether the Administration would consider some deputations' suggestion to expand the scope of PIE engagements in the Bill so as to avoid any regulatory overlaps between FRC and other regulators (including HKICPA); and (c) how FRC could ensure the proposed China wall between investigation and disciplinary decision-making would be effective given that a staff member of FRC might be posted to different departments within FRC. <p>The Administration responded as follows:</p> <ul style="list-style-type: none"> (a) the proposed budget of the post-reform FRC (i.e. around \$90 million at 2016 price level) was appropriate as FRC's scope of work was expected to increase by more than three-fold; (b) the one-off expenditure mainly involved expenditure for relocation of FRC's office and development of its information technology ("IT") system. FRC might use its reserve (which currently stood at some \$20 million) to meet such expenditure if necessary; (c) the proposed scope of PIE engagements in the Bill was determined having regard to the feedback received during the public consultation in 2014. Expansion in the scope might result in more audit firms being caught under the regulatory regime for PIE auditors. Any change to the proposed scope would require thorough consultation with the industry; and 	

Time Marker	Speaker	Subject(s)	Action Required
		<p>(d) it would be important to set up a China wall for the post-reform FRC's disciplinary decision-making in order to comply with the principle of natural justice. FRC would put in place administrative arrangements to ensure that the executives who had participated in the investigation, inspection, or disciplinary processes of a case would not take part in making the disciplinary decision for the case.</p>	
<p>012137 – 012903</p>	<p>Chairman Mr Christopher CHEUNG Administration</p>	<p>Mr CHEUNG expressed concern about unfairness for securities investors to bear a higher contribution ratio in respect of the levy than PIEs and PIE auditors in funding the post-reform FRC, and remarked that the Government, PIEs and PIE auditors should bear the proposed levy on securities investors instead.</p> <p>The Administration replied as follows:</p> <p>(a) contributions in respect of the levy from sellers and purchasers in securities transactions, PIEs and PIE auditors for funding the post-reform FRC had been changed from the proposed equal sharing among the three parties during the public consultation in 2014 to the ratio of 50:25:25 in the Bill in view of the feedback received; and</p> <p>(b) the Bill sought to strengthen the independence of the existing regulatory regime for PIE auditors in order to enhance investor protection. Investors could benefit from improvement in the integrity and accuracy of financial reports of listed entities. As such, it would not be unreasonable to impose a levy on investors of securities transactions for funding the future FRC.</p> <p>At Mr CHEUNG's request, the Administration was required to explain the rationale for the change in the share of contributions for funding the post-reform FRC, and confirm whether and how the securities industry and</p>	<p>The Administration to take action as per paragraph 6 of the minutes</p>

Time Marker	Speaker	Subject(s)	Action Required
		local investors had been consulted on the change.	
012904 – 014345	Chairman Deputy Chairman Chairman Mrs Regina IP HKICPA Mid-tier Firm Alliance Crowe Horwath (HK) CPA Limited Administration	<p><u>Scope of public interest entity engagements</u></p> <p>Deputy Chairman sought deputations' views on whether the proposed scope of PIE engagements in the Bill should be expanded.</p> <p>HKICPA pointed out that there was consensus among HKICPA, FRC and the Administration on the expanded scope of PIE engagements.</p> <p>Mid-tier Firm Alliance objected to the proposed expansion of the scope lest more audit firms would be caught under the regulatory regime for PIE auditors. Crowe Horwath (HK) CPA Limited echoed the view of Mid-tier Firm Alliance.</p> <p><u>Financial arrangement of the Financial Reporting Council</u></p> <p>Deputy Chairman referred to his earlier proposal put forward to the Administration urging it to provide a \$300 million-seed money to subsidize the operation of the post-reform FRC. Noting that FRC might incur huge expenditure in office relocation, IT system development and establishment of a litigation reserve fund, he asked if the Administration could consider, as in the case of the establishment of the Insurance Authority ("IA"), providing a seed money of around \$600 million for FRC. He opined that FRC could use half of the seed money to meet the set-up cost, and the rest to support FRC's operation in the initial years and to subsidize part of the proposed levies payable to FRC. He sought deputations' views on his proposal.</p> <p>HKICPA welcomed Deputy Chairman's suggestion, and opined that FRC should be prudent in using the seed money.</p> <p>Mrs IP supported Deputy Chairman's proposal. She opined that financial independence was not a necessary condition</p>	

Time Marker	Speaker	Subject(s)	Action Required
		<p>for FRC to be operationally independent of the Government. She called on FRC to stay vigilant in containing its expenditure, and enquired whether FRC had put in place any mechanism for monitoring its spending.</p> <p>The Chairman enquired how the Administration would provide the seed money, if any, to FRC.</p> <p>The Administration responded as follows:</p> <p>(a) it would consider members' suggestion on the funding for the post-reform FRC;</p> <p>(b) the rates of the levies payable to FRC were provided in the Bill. Future adjustments to the rates would be subject to negative vetting by the Legislative Council ("LegCo");</p> <p>(c) the Bill had included a number of measures to monitor the spending of FRC, including subjecting FRC's annual budget to the approval of the Financial Secretary, requiring FRC's financial statements to be audited by the Director of Audit and to be tabled before LegCo; and</p> <p>(d) there were provisions in the Bill requiring FRC to review the rates of levies with a view to reducing the levies. The provision provided for the review in case where FRC's reserve (after deducting depreciation and all provisions) were more than twice its operating expenses for the financial year and FRC had no outstanding debt.</p> <p><u>Pecuniary penalty imposed by the Financial Reporting Council</u></p> <p>Mrs IP's views and enquiries as follows:</p> <p>(a) the industry had raised grave concern about the proposed pecuniary penalty to be imposed by FRC as there was inadequate case precedent on the matter;</p>	<p>The Administration to take action as per paragraph 5 of the minutes</p>

Time Marker	Speaker	Subject(s)	Action Required
		<p>(b) how the cap of the pecuniary penalty (i.e. \$10 million) was worked out, and whether the Administration could consider lowering the cap; and</p> <p>(c) the Administration should provide information on the pecuniary penalty (including the maximum limit if applicable) imposed by overseas PIE auditor oversight bodies including the major member jurisdictions of IFIAR (such as the United States, the United Kingdom, Australia, Singapore and Canada).</p> <p>The Mid-tier Firm Alliance concurred that the proposed maximum limit of pecuniary penalty in the Bill should be reduced.</p> <p>The Chairman enquired how FRC would handle the pecuniary penalty paid to FRC.</p> <p>The Administration responded as follows:</p> <p>(a) the cap of the pecuniary penalty was determined making reference to the practice of other financial regulatory regimes in Hong Kong; and</p> <p>(b) pecuniary penalty paid to FRC would be credited to the general revenue of the Government.</p>	<p>The Administration to take action as per paragraph 9 of the minutes</p>
<p>014346 – 014952</p>	<p>Chairman Mid-tier Firm Alliance HKICPA</p>	<p>The Mid-tier Firm Alliance's views as follows:</p> <p>(a) the proportion of practitioners in the post-reform FRC should be increased given that the final decision on FRC's disciplinary actions would be made by its directors; and</p> <p>(b) FRC should separate its inspection/investigation and disciplinary mechanisms. There was concern that the Chief Executive Officer of FRC would not be subject to the proposed China wall for disciplinary decision-making.</p>	

Time Marker	Speaker	Subject(s)	Action Required
		<p>HKICPA highlighted the main features of the EC equivalence, and relayed the industry's views that unlike participation in IFIAR, adoption of the EC equivalence would not bring many concrete benefits to Hong Kong.</p>	
014953 – 015528	<p>Chairman Mr LEUNG Kwok-hung</p>	<p>Mr LEUNG's views as follows:</p> <p>(a) the proposed introduction of weighted voting right ("WVR") structures in the Hong Kong's stock market might adversely affect the interests of investors; and</p> <p>(b) regulators including the Securities and Futures Commission ("SFC") should step up efforts in conducting due diligence on companies (particularly those with WVR structures) when they applied for listing in Hong Kong.</p>	
015529 – 021957	<p>Chairman HKICPA Mid-tier Firm Alliance BDO Limited Administration Ms Starry LEE Mr Christopher CHEUNG Deputy Chairman</p>	<p><u>Pecuniary penalty imposed by the Financial Reporting Council</u></p> <p>Ms LEE's enquiries and views as follows:</p> <p>(a) FRC was required under the Bill to issue guidelines to indicate the manner in which it exercised the power to order a PIE auditor or responsible person to pay a pecuniary penalty ("the Guidelines"). FRC should highlight the details and the progress in preparing them;</p> <p>(b) whether an accounting/audit firm or its staff would be subject to FRC's pecuniary penalty; and</p> <p>(c) the Administration and FRC should provide the draft Guidelines as soon as practicable.</p> <p>Mr CHEUNG pointed out that the Guidelines should clearly set out the parties that might be subject to pecuniary penalty.</p> <p>Deputy Chairman's request for the Administration to ensure that FRC would</p>	

Time Marker	Speaker	Subject(s)	Action Required
		<p>issue the Guidelines before the proposed commencement of the Bill on 1 August 2019.</p> <p>HKICPA called on FRC to issue guidelines on the operation of the regulatory regime and the determination and application of disciplinary sanctions as soon as practicable. Mid-tier Firm Alliance expressed similar views.</p> <p>HKICPA and Mid-tier Firm Alliance pointed out that a practice unit and/or its responsible persons might be liable to the pecuniary penalty.</p> <p>BDO Limited remarked that the Administration and FRC had promised during the public consultation in 2014 that the draft Guidelines would be available when the Bill was introduced into LegCo.</p> <p>The Administration advised that:</p> <ul style="list-style-type: none"> (a) during the public consultation in 2014, the Government agreed to provide the general principles of the Guidelines as soon as possible; (b) FRC was preparing the Guidelines, setting out the factors it would consider when determining the level of pecuniary penalty, including: <ul style="list-style-type: none"> (i) the nature and seriousness of the irregularities; (ii) the amount of profits accrued or loss avoided as a result of the irregularity; (iii) the audit fees received by the PIE auditor; and (iv) other circumstances of the regulated person, which would include the size and financial resources of the firm or individual and that the penalty would not put a firm or individual in financial jeopardy; 	

Time Marker	Speaker	Subject(s)	Action Required
		<p>(c) under the proposed regulatory regime for PIE auditors, a practice unit applying to become a registered PIE auditor must also provide in its application information about its responsible persons. The pecuniary penalty would be imposed on the practice unit and/or its responsible persons; and</p> <p>(d) FRC was committed to issuing the Guidelines as soon as practicable after the enactment of the Bill and certainly prior to the commencement of the Bill.</p> <p><u>Disciplinary mechanism of the Financial Reporting Council</u></p> <p>Deputy Chairman's enquiries and view as follows:</p> <p>(a) the reasons for imposing criminal sanctions against a party for non-compliance with FRC's inspection requirements;</p> <p>(b) FRC's disciplinary processes were unclear (e.g. under what circumstances an inspection would lead to an investigation); and</p> <p>(c) the safeguards for a PIE auditor to raise objection to FRC's disciplinary decisions or actions.</p> <p>BDO Limited's views as follows:</p> <p>(a) FRC's inspection and investigation were different in nature; and</p> <p>(b) it would be more appropriate to revoke a PIE auditor's registration for non-compliances with FRC's inspection requirements instead of imposing criminal sanctions on the auditor as the latter sanction might breach the principle of presumption of innocence.</p>	

Time Marker	Speaker	Subject(s)	Action Required
		<p>HKICPA remarked that the Administration had advised that FRC would issue guidelines on the follow-up actions (including the taking of disciplinary actions) FRC might take after its inspection on a PIE auditor.</p> <p>The Administration responded as follows:</p> <ul style="list-style-type: none"> (a) FRC's inspection power was on par with that of other regulators including SFC, IA and the Mandatory Provident Fund Schemes Authority; (b) criminal sanctions were imposed against certain acts under the Bill to ensure that FRC could discharge its inspection power properly; and (c) irregularities identified during an FRC inspection would not necessarily lead to investigation or disciplinary action. FRC might require the PIE auditor concerned to take remedial actions instead. <p>The Administration highlighted the disciplinary and appellate mechanism of the regulatory regime for PIE auditors as set out in the LegCo Brief, and stressed that a PIE auditor would be given reasonable opportunities of being heard at various stages of the mechanism.</p> <p>At the request of Deputy Chairman and Ms Starry LEE, the Administration was required to:</p> <ul style="list-style-type: none"> (a) explain FRC's disciplinary processes including the factors to be considered by FRC before initiating the disciplinary processes, and the parties (e.g. PIE auditors and their responsible persons) to be subject to the disciplinary processes; and (b) provide information on: <ul style="list-style-type: none"> (i) the progress in preparing the Guidelines including whether FRC would issue the Guidelines prior to 	<p>The Administration to take action as per paragraphs 7 and 8 of the minutes</p>

Time Marker	Speaker	Subject(s)	Action Required
		<p>the proposed commencement of the Bill on 1 August 2019; and</p> <p>(ii) outlines of the Guidelines.</p>	
021958 – 022231	Chairman Administration	<p>Briefing by the Administration on its response to issues raised at the meeting on 13 February 2018 [LC Paper No. CB(1)687/17-18(02)]</p>	
022232 – 022639	Chairman Deputy Chairman Chairman Administration	<p>Deputy Chairman's enquiries as follows:</p> <p>(a) what was the estimated establishment of the post-reform FRC; and</p> <p>(b) what was FRC's preliminary plans regarding office accommodation.</p> <p>The Administration responded as follows:</p> <p>(a) it was envisaged that the establishment of the post-reform FRC would be increased by three-fold;</p> <p>(b) it was envisaged that the top management team of FRC would consist of a Chief Executive Officer and three executive directors (each of whom would be in charge of FRC's investigation, inspection and discipline work respectively); and</p> <p>(c) the estimated rental cost of \$8 million (at 2016 price level) was based on the assumption that FRC would rent an office with a gross floor area around 10 000 square feet in Kowloon East.</p>	
Agenda item II — Any other business			
022640 – 022658	Chairman	Date of next meeting	