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By hand

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Clerk to Bills Committee on Financial Reporting Council (Amendment) Bill 2018
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Sirs

Financial Reporting Council (Amendment) Bill 2018 - Invitation for Comment

BDO is pleased to have the opportunity to comment on the subject Amendment Bill.

General Comments

We welcome and support the Financial Reporting Council (Amendment) Bill 2018 setting out to enhance the independence of the existing regulatory regime for Auditors of Listed Entities (“ALEs”) from the audit profession so as to ensure the regime is benchmarked against international standards and best practice, and thus enable Hong Kong to gain the membership of IFIAR.

We agree Hong Kong shall gain tangible benefits in joining IFIAR as we can exert greater influence on the international development of auditor regulation and ensure recognition of audit reports issued by Hong Kong-based accounting practices in other IFIAR member jurisdictions under normal circumstances.

We are supportive of the Amendment Bill which proposes HKICPA to continue with the daily duties of registration of local PIE auditors, setting CPD requirements and setting standards on professional ethics, auditing and assurance under the oversight of FRC as we believe it strikes the right balance in consideration of the resource requirements and regulatory needs.

Specific Comments

1. New composition of FRC

In the Amendment Bill it is suggested within the seven executive or non-executive directors to be appointed by the CE, at least two persons should possess knowledge of, and experience in, PIE engagements. We believe it is imperative to have adequate members of the Council who have appropriate training and experience in auditing so that

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they can contribute their audit knowhow to the Council's deliberations on audit cases to arrive at good and sound decisions.

However, this has to be balanced against any potential apparent compromise to independence from the audit profession if active audit practitioners were appointed. Thus, we suggest the Bills Committee to consider favourably the option of appointing retired audit practitioners to fill these roles as they would have the necessary audit experience and knowledge whilst not compromising the Council's independence from the profession. In addition, we believe one-third would be a better formula than the minimum 2 as presently suggested.

2. *Definition of PIE*

We suggest the definition of PIE in the Amendment Bill should be extended to all external reportings that are required under the existing listing rules of the HKEX.

3. *Criminal liability for failure to comply with a specific inspection requirement*

We disagree with S.21F of the Amendment Bill, regarding the proposed criminal liability causing pecuniary fine and imprisonment up to 1 year for failure to comply with a specific inspection requirement, as being totally unproportional and unnecessary.

In the context of the regulatory regime for ALEs, we believe the appropriate consequences for failure to comply with a specific inspection requirement should be removal (at least temporarily) from the registration list of ALEs.

4. *Funding proposal*

The Amendment Bill is proposing a funding arrangement whereby half is provided through levies on securities transactions and a quarter each by PIE and ALEs respectively. In our view, ALEs should not be part of the funding sources as that would produce a better outcome from an independence perspective. Besides, even if ALEs were asked to provide up to one-quarter of the cost, we believe they will transfer these costs to their PIE clients in the long-run who will eventually be the effective funding party. Therefore we suggest to take ALEs out of the funding mechanism to minimize complications.

Please contact us should you wish to discuss any of the above comments.

Yours faithfully,



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BDO Limited