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

Our ref: TPFC/WAC/70

9 March 2018

Dear Sirs

**Invitation for submissions on Financial Reporting Council (Amendment) Bill 2018 ("the Bill")**

We refer to the Committee's invitation for submissions in respect of the above, and set out our comments in the attached appendix for the Committee's consideration.

Overall, we welcome and support efforts to move towards further independent oversight of auditors of Hong Kong listed entities. We believe this is in the public interest and will benefit investors, the audit profession and Hong Kong's international standing.

We hope our comments will be helpful to the Committee.

Yours faithfully

KPMG

Enclosure

1. Independent oversight

We welcome and support efforts to move towards further independent oversight of auditors of Hong Kong listed entities.

We believe a key priority should be to expedite passing the Bill and achieving Hong Kong's membership of the International Forum of Independent Audit Regulators.

To be effective, the Financial Reporting Council ("FRC") needs to ensure it has sufficient representation on its Council of persons who have relevant knowledge and experience of auditing and accounting matters.

In addition, the FRC should continue to have practitioners involved in its expert panels so that the FRC can avail of up-to-date knowledge and expertise when evaluating issues.

In all situations, and as is currently the case, any practitioners involved should be free of conflicts from the matters on which they give their input.

We note that having practitioners at the Council level may impact satisfying the criteria for regulatory equivalence adopted by the European Union.

In this respect, the Committee may wish to give further consideration to the composition of the Council. However, even so, it is important that the FRC should have a sufficient number of Council members with the requisite knowledge and experience (e.g. former practitioners), as well as having current practitioners on expert panels, for the reasons set out above.

2. Scope of PIE engagements

We believe that all audit and reporting accountant engagements required under the Hong Kong listing rules and that are included in publicly available listing documents and circulars, should be within the scope of the new independent oversight regime.

3. Inspections

For issues arising from an inspection, the appropriate regulatory response will depend on the severity of the issue and on the facts and circumstances. In some situations, disciplinary action may be appropriate. In others, disciplinary action may not be warranted, and instead a remediation plan by the auditor might be the appropriate outcome.

Furthermore, we believe that failure to comply with the requirements in relation to an inspection should be subject to the FRC's disciplinary regime but not criminal action.

4. FRC's operations

An adequate and independent disciplinary process over auditors of listed entities is required in the public interest. Such a process needs to be effective and transparent. It also needs to be just and fair.

We believe that the disciplinary mechanism needs to be sufficiently independent of the inspection and investigation process, in order to be compatible with the principles of natural justice.

Any penalties for an audit failure should be proportionate to the audit failure and should be consistently applied.

We await to see details of the FRC's proposed sanctioning guidelines and details of its internal processes over inspection and disciplinary matters. These should incorporate the above principles and be publicly available.

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