



SECURITIES AND FUTURES COMMISSION

證券及期貨事務監察委員會

35/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong
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9 March 2018

Clerk to Bills Committee on Financial Reporting Council (Amendment) Bill 2018

Legislative Council Secretariat

Legislative Council Complex

1 Legislative Council Road

Central, Hong Kong

Invitation of views by the Bills Committee on Financial Reporting Council (Amendment) Bill 2018

I am writing on behalf of the Securities and Futures Commission in response to the invitation of views issued by the Bills Committee on the Financial Reporting Council (Amendment) Bill 2018.

The SFC is very much supportive of the objectives of the Bill. High quality audits are vital to the reputation of Hong Kong as an international financial centre. It is therefore very important that Hong Kong has an oversight regime that, as a minimum, meets international standards and provides a level of comfort that encourages international investors to invest in Hong Kong listed companies. The current Bill goes a long way towards meeting that objective and will enhance the reputation of Hong Kong in this respect.

However, there are two issues that need further enhancement to bring them more in line with international norms.

- 1) The composition of the Council should be wholly non-practitioners (i.e. not be involved in an audit or associated with audit work in the last 3 years). Without this restriction the Council (and hence Hong Kong as a jurisdiction) will not be regarded as equivalent for EU purposes. That will create a disincentive for international companies to list here and potentially using Hong Kong audit firms. It will also reduce international investor's appetite for investing in Hong Kong listed companies generally. At an operational level the FRC will have several staff members recently arrived from the industry and there will be practitioners acting as advisors to FRC committees. The FRC will therefore not be lacking in active practitioner advice and expertise. However, it is important that the Council itself meets the highest levels of probity and comparison with international standards of governance for such bodies.



- 2) Whilst the FRC has oversight in relation to annual audit work etc, there are various Listing Rule requirements for assurance from accountants that currently fall outside scope. The most significant of these relates to the assurance that may be given by an audit firm in relation to the interim accounts prepared by a listed company. It would seem odd for any work performed by an audit firm in relation to the interim accounts to fall outside of the FRC's remit and worse, could create unnecessary complications and potential for confusion. Particularly so given that the audit work for the annual accounts which include the period covered by the interim accounts would fall within the FRC's remit.

We hope that these two issues can be considered by the Bills Committee and any necessary amendments made to bring the provisions into line with internationally accepted standards.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M Duignan'.

Michael Duignan
Senior Director
Corporate Finance Division