

19 March 2018

To Mr Hugo CHIU  
 for Clerk to Bills Committee

Dear Mr Chiu

**Bills Committee Meeting on Financial Reporting Council (Amendment) Bill 2018 on 20 March 2018**

Thank you for inviting CPA Australia's representative to attend the meeting of the Bills Committee on Financial Reporting Council (Amendment) Bill 2018 ("the Bills Committee") on 20 March.

On behalf of CPA Australia, one of the largest accounting bodies in the world with over 18,000 members in Greater China, I am making this note of CPA Australia's viewpoints on the Financial Reporting Council (Amendment) Bill 2018 and will present them at the meeting.

Issue		Feedback
1.	Registration of PIE auditors	A grandfathering arrangement should be in place to ensure the smooth transition of existing registered auditors to the new registration framework.  Clear guidelines should be developed and made available on the eligibility criteria for the registration of new PIE auditors.
2.	Regulation of mainland PIE auditors	The Bill has not addressed the regulation of mainland PIE auditors who could be engaged in auditing Mainland-incorporated companies listed in Hong Kong. There should be clearer guidelines and fair treatment on the regulation of PIE auditors whether they are from Hong Kong, Mainland or overseas.
3.	Investigation and disciplinary powers of FRC	We share the concerns raised by members of the FA Panel on the expanded investigation and disciplinary powers of FRC. We agree with the FA Panel's view that <i>"FRC should separate its investigation and disciplinary mechanisms, and suggested that the Government should consider setting up a separate disciplinary committee within FRC or an independent tribunal for hearing and deciding on disciplinary cases in respect of PIE auditors."</i> (Ref: Bills Committee on Financial Reporting Council (Amendment) Bill 2018 Background brief, paragraph 10)
4.	Pecuniary penalty	A comprehensive and transparent set of guidelines including case scenarios should be developed and made available on how the levels of penalties are determined. Such penalties should be benchmarked with the practices of other jurisdictions.
5.	Independent Review Tribunal	We recommend that specific, current listed company audit expertise would be required on the Tribunal in addition to the judicial expertise and power proposed. From our experience in other jurisdictions, the matters considered by the Tribunal are likely to involve practical and advanced auditing and assurance related matters and professional judgements.

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6.	Composition of FRC	On the proposed Director appointment of "at least two persons possessing knowledge of and experience in PIE engagements", we recommend specifying that the knowledge of auditing of Hong Kong listed entities is "current knowledge" given the propensity of auditing practice, methodology and standards to change frequently and rapidly.
7.	New levies	<p>We note the practical context and a number of challenges that may arise in the proposed funding model. Primarily, the levy on audit firms would increase a cost burden which is already expected to rise as a result of the proposed regulatory regime. Achieving fairness in the construction of levies across the myriad of stakeholders that benefit from the integrity provided by the audit function, in addition to considering the audit profession itself, is a challenging and almost inevitably arbitrary exercise.</p> <p>It is important to consider the calibration of the FRC's funding model in this context. A funding model that has been demonstrated to address these challenges in other jurisdictions is funding of the audit regulator from general government revenue, rather than special levies. We would recommend, particularly in initially implementing the revised regulatory regime, that this option is a preferable approach.</p> <p>In the Australian context, public listed companies' auditors must be registered company auditors (RCAs). RCAs are registered with and regulated by Australian Securities and Investment Commission (ASIC). In the past ASIC was funded largely by the Australian Government, although registration fees and other fees which were charged for ASIC's services went into the government's consolidated revenue and were not offset directly against ASIC's costs of operation.</p> <p>From 1 July 2018, there will be an industry funding model in place to fund ASIC. Essentially funding of the costs of registration and compliance activities of ASIC will be through levies on the regulated bodies and individuals registered with ASIC. However certain other activities, such as education, will still be funded by the Australian government. The professional accounting bodies, industry bodies or the stock exchange will not be contributing to this funding.</p>

We would be pleased to discuss the above matters further should you wish. Please contact [REDACTED], Public Relations Manager of CPA Australia on [REDACTED] or email to [REDACTED]

Yours sincerely



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 Divisional President 2017 – Greater China  
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