

Bills Committee on Financial Reporting Council (Amendment) Bill 2018

**List of follow-up actions arising from the discussion
at the meeting on 5 June 2018**

Pecuniary penalty to be imposed by the Financial Reporting Council

1. The Administration is requested to respond to a member's views that it should consider reducing the proposed maximum pecuniary penalty of \$10 million provided in the Bill which the Financial Reporting Council ("FRC") may impose for misconduct of auditors of public interest entities ("PIE auditors").

Financial arrangement of the Financial Reporting Council

2. The Administration is requested to provide the detailed budget of the post-reform FRC and the underlying assumptions, including a breakdown on the staff costs by levels of the officers, and a breakdown of the fixed and recurrent costs.

Negotiation with the Mainland on access to audit working papers of recognized auditors of public interest entities

3. The Administration is requested to provide information on the progress of negotiation between FRC and the relevant Mainland regulators on an Memorandum of Understanding ("MOU") which, inter alia, allows FRC to seek non-confidential audit working papers of recognized PIE auditors in the Mainland. The Administration is also requested to confirm if the MOU could be concluded before the commencement of the Bill (i.e. 1 August 2019).

Composition of the Financial Reporting Council

4. As provided in the proposed section 7(1)(a) of the Financial Reporting Council Ordinance (Cap. 588) ("FRCO"), the chairperson of FRC is a non-executive director of FRC and a non-practitioner. The Administration is requested to explain the rationale for adopting a non-executive director model for the chairmanship of FRC, and provide information on the relevant studies conducted in supporting this model including the models adopted by other comparable regulators in Hong Kong and overseas.

5. The Administration is requested to review the proposed section 7(4)(b)(i) and (ii) regarding the background of persons to be appointed as FRC members to remove possible overlaps between the provisions.

The function and power of the Financial Reporting Council in overseeing the Hong Kong Institute of Certified Public Accountants' performance of functions relating to registered PIE auditors

6. The proposed section 9(b) of FRCO provides FRC with a function to "oversee" the Hong Kong Institute of Certified Public Accountants' ("HKICPA") performance of certain functions relating to registered PIE auditors (e.g. registration, setting continuing professional development requirements and standards on professional ethics for these auditors). The proposed section 10(1A) of FRCO stipulates FRC's powers for performing the function under the proposed section 9(b), and the proposed section 10(1B) provides that HKICPA must comply with any direction given by FRC under subsection (1A)(c). According to the Administration, FRC and HKICPA will conclude an agreement on the implementation details of FRC's function and power regarding the above provisions ("the proposed agreement"). The Administration is requested to:
 - (a) provide the framework and outline of the proposed agreement, and the timetable for concluding the agreement;
 - (b) explain the legislative intent of the proposed section 10(1A) and confirm whether the powers stipulated in the provision are exhaustive;
 - (c) review the proposed section 10(1B) to consider the need of expanding the provision to cover subsection (1A)(a) and (b); and
 - (d) explain the consequences on HKICPA for its non-compliance with FRC's request or direction given under the proposed section 10(1A).