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財經事務及庫務局
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FINANCIAL SERVICES BRANCH
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By email (hytchiu@legco.gov.hk)

25 August 2021

Clerk to Bills Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Mr Hugo CHIU)

Dear Mr CHIU,

**Follow-up to the meeting of the Bills Committee on
Financial Reporting Council (Amendment) Bill 2021 on 12 August 2021**

I refer to your email dated 16 August 2021. The Administration's responses are set out in **Annex** for follow-up.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Billy AU', written over a circular stamp.

(Billy AU)

for Secretary for Financial Services
and the Treasury

C.C.
Department of Justice

(Attn: Ms Sandy HUNG
Mr Gary LI)

**Bills Committee on Financial Reporting Council (Amendment) Bill 2021
 (“the Bill”)**

Responses to matters raised by Members in the meeting on 12 August 2021

*Funding mechanism of the post-reform Financial Reporting Council (“FRC”)
(Paragraph 1 of the list of follow-up actions)*

The current Financial Reporting Council Ordinance (Cap. 588) (“FRCO”) has already provided for a levy mechanism (i.e. the collection of levies from public interest entities (“PIE”) auditors, PIEs and sellers and purchasers of securities) to fund the FRC’s discharge of functions under the PIE auditor regulatory regime. The Government injected a seed capital of \$400 million into the FRC in 2019 to help it migrate to the current regime and exempt the levies for the first two years which will only be collected starting from 1 January 2022. The levies arrangement and rate will not be affected by the proposed further reform.

2. Upon implementation of the proposed reform, the FRC will become responsible for the issue of practising certificates and registration of firms and corporate practices. It will also collect the relevant application fees in place of the Hong Kong Institute of Certified Public Accountants (“HKICPA”). During the transition to the implementation of the further reform, the Government, with reference to the last reform, will allow the FRC to use the unspent balance of the seed capital to help fund its expanded functions (i.e. regulatory work that does not concern PIE engagements) in the initial stage of the reform. Meanwhile, the FRC will not collect application fees for practising certificates and registration of firms and corporate practices temporarily.

3. The FRC is reviewing its long-term resource requirements taking into account the reform. We will monitor the FRC’s actual operation and devise a suitable financial mechanism for the FRC based on the principle of not increasing the burden of the profession. The new application fees will be submitted to the Legislative Council (“LegCo”) for scrutiny by way of a subsidiary legislation. We expect that the fee level will be comparable to the current level set by the HKICPA.

4. The income and expenditure for the FRC's regulation of PIE auditors and other practice units and certified public accountants ("CPA") will be planned on the "user-pay" principle to avoid unreasonable cross-subsidisation. This will be suitably reflected in its annual budgets. The FRC will submit its annual budgets to the Financial Secretary for approval in accordance with the FRCO. We will also brief the LegCo Panel on Financial Affairs on the key points of the budgets in order to monitor the financial arrangements of the FRC.

Application of accounting and auditing standards by the post-reform FRC (Paragraph 2 of the list of follow-up actions)

5. Under the PIE auditors regulatory regime, the FRC may carry out inspections and investigations in accordance with the FRCO to ascertain if a PIE auditor has contravened a professional standard, which refers not only to the statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified under the Professional Accountants Ordinance (Cap. 50) ("PAO") but also relevant standards issued or specified by international bodies¹, relevant standards specified in the Listing Rules, and standards allowed by the Securities and Futures Commission pursuant to the relevant code or by the Hong Kong Exchanges and Clearing Limited pursuant to the Listing Rules.

6. Under the proposed new regime, the regulatory powers of the FRC will be expanded to cover accounting engagements other than PIE engagements. The major applicable standards to these engagements are the statement of professional ethics, and standard of accounting, auditing or assurance practices issued or specified by the HKICPA under the PAO. The FRC will oversee the issue and specification of these standards and may, where necessary, issue directions to ensure that the standards are timely enhanced and supplemented in alignment with the development of international standards and the needs of the Hong Kong markets.

Development of the accounting profession (Paragraph 3 of the list of follow-up actions)

¹ The relevant international bodies include the International Accounting Standards Board, the International Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants.

7. The existing PAO prohibits an individual or a company from using certain misleading descriptions in an attempt to mislead the public into believing that the individual or company is a certified public accountant (“CPA”) or a practice unit registered under the PAO. Different stakeholders have expressed concerns about the provisions, in particular about the need to strike a balance between prohibiting the use of misleading descriptions and allowing room for development for general businesses such as book-keeping and tax services. The Government is prepared to discuss with the accounting regulatory and professional bodies and explore how public protection against misleading descriptions can be enhanced on the basis of existing legislation. Given that the matters involved are complicated and controversial, we have to fully consider the views of various stakeholders such as the accounting profession, relevant service providers and service users before deciding on whether and how to amend the relevant provisions.

8. We have attended to the market situation and ecosystem of the profession, as well as the development opportunities offered by overseas countries and the Mainland for Hong Kong accounting professionals. Various programmes and supporting measures have been implemented as appropriate. For instance, amid the severe COVID-19 pandemic situation, the Government has launched the Employment Support Scheme under the Anti-epidemic Fund and the Financial Industry Recruitment Scheme for Tomorrow through the Financial Services Development Council, with a view to providing financial support to the accounting profession. Meanwhile, accounting professionals who are required to travel to the Mainland to conduct audit work for listed companies are exempted from compulsory quarantine after returning to Hong Kong pursuant to the overall anti-pandemic measures. This arrangement has helped the profession to cope with the challenges brought by the pandemic.

9. While reforming the regulatory regime of the accounting profession, the Government will work with professional accounting bodies to consider how best to step up research on the overall market condition of the accounting profession, such as the competition features of the market, concentration, manpower demand, trend of audit fees and other matters of concern to the profession and service users, especially those of concern to the small to medium sized practice units. Furthermore, since the PIE auditor regulatory regime came into operation, the FRC has been conducting focused research on matters in relation to PIE auditors

under its policy and governance function. With expanded functions in future, the FRC will deepen its work concerning the accounting profession. The Bill proposes to establish a statutory advisory committee consisting of practitioners, service users and other stakeholders of the accounting profession to provide advice to the FRC. The Government will also join hands with the FRC and professional accounting bodies in exploring how to enhance training of professionals to tie in with the future development of the profession in Hong Kong, the Mainland and overseas countries.

10. The Government has been discussing with the Mainland through various channels the introduction of measures to facilitate the accounting professionals in Hong Kong to pursue development opportunities in the Mainland. Under the framework of the Agreement on Trade in Services of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), Hong Kong accountants qualified as Chinese CPAs have been granted national treatment in respect of the requirements for becoming partners of partnership accounting firms in the Mainland. We will continue to work at the government level for further measures to facilitate the accounting professionals in Hong Kong to pursue development opportunities in the Mainland, with the emphasis on facilitating the accounting professionals to work and develop business in the Greater Bay Area.

Requirements for application and renewal of practising certificate

11. Members also suggested at the Committee meeting on 12 August that the Bill should require the FRC to assess whether an applicant is a fit and proper person when processing the first time application for and renewal of practising certificate, and that the FRC should be given more powers in setting the continuing professional development (“CPD”) requirements when processing those applications.

12. In assessing whether an applicant is a fit and proper person, the existing PAO requires that the applicant has to be a fit and proper person when applying to be registered as a CPA. The HKICPA will make the assessment which will also form the basis for the annual renewal of CPA registration and application for practising certificate of CPAs. The PAO however does not contain additional express provisions on the “fit and proper” requirement regarding the annual renewal of CPA registration and application for practising certificate. Meeting

the “fit-and-proper test” is a basic requirement for CPAs and the requirement must be observed at all time. Therefore, though the existing legislation does not contain express provisions on the “fit and proper” requirement for renewal of CPA registration and application for practising certificate, investigation and disciplinary proceedings may be initiated against individual CPAs including CPAs (Practising) if their fitness and properness is in doubt. Having regard to the importance of “fit and proper” requirement on CPAs and CPAs (Practising), as well as the actual regulatory practices, we will examine on how best we can reflect the requirement in the Bill.

13. On the CPD requirements for the issue of practising certificate, as the HKICPA will continue to be vested with the duties of setting the general CPD requirements for the accounting profession, we proposed to retain the provisions on the HKICPA to set additional CPD requirements for individual applications of practising certificate if necessary. After considering the views of the Members, we agree that it is also reasonable for the FRC, as the authority to approve and issue practising certificates, to have the power to set additional CPD requirements when processing the application. In any case, the FRC will work closely with the HKICPA in future on the general CPD requirements of the accounting profession and the CPD requirements of individual professionals. We will further explore the need to amend the relevant provisions of the Bill.

Financial Services and the Treasury Bureau
25 August 2021