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LC Paper No. CB(1)1274/20-21(01)
香港華人會計師公會
The Society of Chinese Accountants & Auditors

(在香港註冊成立之有限公司)
(Incorporated in Hong Kong as a company limited by guarantee)

(Email: bc_12_20@legco.gov.hk)

30 August 2021

Clerk to Bills Committee on Financial Reporting Council (Amendment) Bill 2021
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong.

Dear Sirs,

Financial Reporting Council (Amendment) Bill 2021 ("Bill")

On behalf of the Society of Chinese Accountants & Auditors (SCAA), we would like to provide our submission on the captioned as follows.

We acknowledged that the Bill aims to develop the Financial Reporting Council ("FRC") into a full-fledged independent regulatory and oversight board for the accounting profession which will make the regulatory regime more in line with the international standard and practice and reinforce Hong Kong status as an international financial centre and business hub.

We have the following comments on the Bill and the proposed reform:

Funding mechanism on Financial Reporting Council

The funding mechanism on FRC's expanded functions was stated in the Legislative Council Brief (File Ref.: ACCT/2/1/2C) and is extracted as follows:

23. New levies have been introduced under the PIE auditor regulatory regime which will be payable by PIE auditors, PIEs and sellers and purchasers of securities respectively. The Government injected a seed capital of \$400 million into the FRC in 2019 to help it migrate to the current regime before it starts collecting the said levies from 1 January 2022. It is estimated that the unspent balance of the seed capital by the time the said levies come into place can help fund the FRC's expanded functions in the initial years of the proposed reform.
24. In the long run, the FRC, which will be the authority for issue of practising certificates and registration of CPA firms and corporate practices, will collect fees for practising certificates and registration applications. The fees will be a new source of income to fund its expanded regulatory functions. We will review the FRC's funding arrangement and consider the appropriate fee mechanism in due course. Pending the conclusion of the review, the FRC will not impose fees for issue of practising certificates and registration of CPA firms and corporate practices.



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According to the annual report of the FRC for the 18 months ended 31 March 2021, the unutilized balance of the Government seed fund amounted to HK\$291M as at 31 March 2021. Despite of the FRC budget for the year 2021/2022 submitted to the Legislative Council Panel on Financial Affairs on 1 March 2021 (LC Paper No. CB(1)604/20-21(06)) revealing an overall operating surplus of around HK\$17M, we believed that the income and expenses of the expanded functions have not been taken into consideration in this budget and our concern is whether the FRC could still maintain an operating surplus with the expanded functions and if not, for how long the remaining seed fund would be fully utilized.

We have concerns on whether FRC could still maintain an overall operating surplus in respect of its expanded functions with the above-mentioned funding arrangements and if not, whether the operating deficit will be recovered through the increase of practicing certificates fee or registration fee of CPA firms in the very near future. SCAA noted that the Government shall review the FRC's funding arrangement and consider the appropriate fee mechanism in due course. During this review, we suggest that the Government should also explore the possibility to have a further round of capital injection to the FRC due to its expanded regulatory and registration roles.

Bogus accountants and misleading descriptions of non-qualified individuals, companies or firms

It has been the concern of SCAA and our members (who are mainly practicing accountants) on the existence of bogus certified public accountants ("CPA") firms in Hong Kong as the businesses of our members are directly and adversely impacted. This issue is kept raising to the relevant authorities for years but no satisfactory resolution is noted up to this stage.

In addition, SCAA noted that some non-qualified accounting individuals, companies, or firms use some descriptions for themselves which may mislead the public into believing that they are certified public accountants or practice units registered with the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Under the current Professional Accountants Ordinance (Cap.50) (PAO), non-qualified individuals, companies or firms must not take the following descriptions:

- Certified Public Accountant (practising)
- Public Accountant
- 執業會計師
- 註冊核數師
- 核數師
- 審計師



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SCAA believes that the above restricted descriptions are not sufficient as many individuals, companies or firms in the market are using descriptions, such as, “professional accountant”, “certified accountant”, “registered accountant”, “professional accounting”, “registered accounting”, “certified public accounting”, “certified accounting”, “專業會計師”, “註冊會計師”, “專業會計”, “註冊會計”, “認可會計” and “執業會計”. Some of these companies or firms are sizable and have been using overwhelming advertising campaign and having branches in prime locations to promote their businesses.

The requirements of these restricted descriptions starting from Part 2A 20AAZZN (C4153) of the Bill are the same as the current PAO. SCAA suggests expanding the restricted descriptions by reference to Professional Accountants (Amendment) Bill 2018 which was laid out for encountering the above insufficiency to a certain extent (The said bill has not been enacted as legislation). In addition, the proposed amount of fine in Part 2A 20AAZZN and 20AAZZO of HK\$25,000 fine (level 4) is definitely insufficient. We suggest the proposed fine to be raised to a reasonable level that could create deterrent effect for those who have used the restricted descriptions unlawfully.

Since the regulatory functions of CPAs will be transferred to FRC, SCAA suggests FRC taking up the responsibility and assist our profession to combat the situation of bogus accountants. We suggest that FRC could set up an official channel for the public to report suspected cases for follow up investigations and also provide information to the public for known bogus accountants or bogus CPA firms. In particular, FRC could make reference to the webpage of The Law Society of Hong Kong regarding “Scam Alert” (www.hklawsoc.org.hk/pub_e/scam/search.asp) as a channel for the above purpose.

Inland Revenue Department (IRD) requires Hong Kong companies, with limited exceptions, filing audited financial statements together with profits tax returns and could capture information on who are the statutory auditors of these taxpayers through their completion of profits tax returns. It is one of the powerful measures to combat bogus accountants or bogus CPA firms if IRD could provide each practice with a list of taxpayers who reported that practice unit as their statutory auditors, practice units could, therefore, check for their list and identify taxpayers who are using bogus accountants for follow up action. We suggest FRC to negotiate with the Inland Revenue Department in respect of this measure.

Disciplinary procedures/mechanism

The purpose of the HKICPA Disciplinary Committee (DC) is to deal with formal complaints concerning allegations of misconduct by our members, member practices or registered students pursuant to PAO. DC comprises five independent persons selected as follows:

- (a) three persons, including the Chairman, from Disciplinary Panel A, which comprises no fewer than 18 lay members appointed by the Government; and
- (b) two persons (at least one of whom must hold a practising certificate) from Disciplinary Panel B, which comprises not less than 12 members appointed by the council of the HKICPA.



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As noted above, the composition of DC involves both professional accountants as well as lay members who are neither staff of HKICPA nor persons related to the reviewers/inspectors. In this respect, DC is viewed to be independent and could provide fairness to the members, member practices or registered student who have alleged misconduct. SCAA suggests that FRC should reference to the composition of the DC and establish a similar mechanism so as to create independence and, hence, providing confidence to our members.

It was also noted under the Bill that the maximum penalty imposed for members misconduct for non-PIE engagements is capped at HK\$500,000 which is in line with the current PAO. SCAA would like to seek for a guarantee that this penalty ceiling should not be changed for a definite period of time, say, 5 to 10 years.

Yours sincerely,

Lau, Kenneth
President

Financial Reporting Council (Amendment) Bill 2021 Task Force

Kenneth Lau (President)
Parco Wu (Vice President)
Jason Leung (Honorary Secretary)
Webster Ng (Honorary Treasurer)
Edmund Wong (Immediate Past President)
Ivy Chua (Past President)
Elizabeth Law (Past President)
Andrew Chen (Past President)
Edmond Chan (Past President)
Donald Chau (Past President)

The Society of Chinese Accountants and Auditors was formed in 1913 and incorporated in 1948. The CPA firms of which our members are partners, directors or managers, service a significant majority of businesses in Hong Kong, and also companies investing into or through Hong Kong. Our members directly and regularly communicate with clients, their directors and employees and consequentially understand their needs and concerns.