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2 September 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

**Re: Consultation Paper –
Financial Reporting Council (Amendment) Bill 2021**

The Hong Kong Institute of Directors (“HKIoD”) is pleased to forward our response to the captioned paper.

HKIoD is Hong Kong’s premier body representing directors to foster the long-term success of companies through advocacy and standards-setting in corporate governance and professional development for directors. We are committed to contributing towards the formulation of public policies that are conducive to the advancement of Hong Kong’s international status.

In developing the response, we have consulted our members.

Should you require further information regarding our response, please do not hesitate to contact me on tel no. 2889 9986.

Thank you very much for your kind attention.

Yours sincerely

THE HONG KONG INSTITUTE OF DIRECTORS

Dr Carlye Tsui

Chief Executive Officer

Enc

cc: Dr Christopher To, Chairman, HKIoD
Mr Henry Lai, Immediate Past Chairman, HKIoD &
Chairman, Corporate Governance Policies Committee

Issued on: 2 September 2021

Financial Reporting Council (Amendment) Bill 2021

In response to the invitation from the Bills Committee, The Hong Kong Institute of Directors has pleasure to give view on the captioned Bill.

We generally agree with the concept and purpose of the Bill, which is to enhance independent regulation of the accounting profession. Previously, by virtue of the Financial Reporting Council (Amendment) Bill 2018, the powers to regulate auditors of Public Interest Entities (PIEs) have already been transferred to the Financial Reporting Council (FRC). The current Bill will transform the FRC into the Accounting and Financial Reporting Council (AFRC) and make it a full-fledged regulatory and oversight body for the accounting profession.

The move is in line with international trend. Around the world, including many important economic and financial centers, the mode of regulating the accounting profession has or is moving towards one that separates the regulatory body from the trade.

The reform serves public interest

There are arguments that independent regulation of auditors of PIEs is enough, that there is no need to disrupt the regulatory regime of accountants and auditors not involved in PIE work. We do say, accounting and auditing of or relating to non-listed, non-public companies also carry an important public interest. From bank borrowing to business transactions, creditors and business partners need reliable financial reporting to base their decisions on. Quality accounting and auditing services is important to all those doing business in Hong Kong.

Collaborate to make it work

To achieve the purpose of independent oversight, some more powers heretofore vested with the HKICPA will be transferred to AFRC. Yet, we believe HKICPA still has a strong role to play, for example, in:-

- registration of CPAs;
- administering qualification programmes and conducting examinations;
- setting CPD requirements and providing training;
- setting standards on professional ethics;
- setting standards in accounting, auditing and assurance

Though there would be oversight by the AFRC, and though some functions could be shared with the AFRC, the HKICPA would still have an important influence on the quality of accountants coming into the market and on the further healthy development of the accounting profession.

We sincerely hope there will be continued dialogue between the Government, AFRC, HKICPA, the larger members of the profession and other stakeholders to iron out the details of implementation of reform and to keep the regulatory system effective over time.

On the statutory Advisory Committee

One feature of the Bill is to establish a statutory Advisory Committee consisting of practitioners, service users and other stakeholders of the accounting profession to advise the AFRC. Appointments would be made by the Financial Secretary upon consulting the AFRC. As noted by the Legal Adviser to the Bills Committee, the Bill does not specifically reflect the above conception of the Advisory Committee's composition. The Administration may want to retain some flexibility. We do however believe the conception is an important policy intent that should be pinned down.

As to the actual composition on implementation, the director community would represent an important user group of accounting and auditing services. We think strongly that the Advisory Committee should have representatives from the director community. HKIoD has its aim to train and prepare directors even if without formal accounting background to nonetheless be financially literate to properly consume accounting and auditing services to facilitate board-level decisions for the betterment of the entities they serve. We would be happy to work with the Bills Committee and AFRC on setting out desirable selection criteria and to source such candidates to represent the director community and contribute to the Advisory Committee.

ENDS