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(Translation)

By email (hytchiu@legco.gov.hk)

29 September 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,

Discussion items of the Bills Committee on Financial Reporting Council (Amendment) Bill 2021 ("the Bill")

Our response to the five proposals in the letter from the Hon Starry LEE, Hon Holden CHOW and the Industrial, Commercial and Professional Affairs Committee of the Democratic Alliance for the Betterment and Progress of Hong Kong of 23 September 2021 is as follows.

(1) Upon full implementation of the proposed reform, the Financial Reporting Council ("FRC") will collect the application fees for the issue of practising certificates and the registration of firms and corporate practices in place of the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In order to assist the accounting profession to adapt to the new regulatory regime, the Government is actively considering the exemption of the aforementioned application fees in the first year of the implementation of the reform, and planning to freeze the fees for the first few years thereafter at a level no higher than that which is currently collected by the HKICPA. The details will be submitted to the Legislative Council for reference next year when we deal with the subsidiary

legislation of the subject reform. In the initial stage of the FRC's discharge of its expanded functions, the deficit resulted from the Government's exemption and freeze on the application fees will be met by the unspent balance of the seed capital provided by the Government for the last reform. The FRC will start collecting levies on 1 January 2022 for its regulation of Public Interest Entities ("PIE") auditors in accordance with the existing provisions of the Financial Reporting Council Ordinance. The arrangement will not be affected by the proposed reform. In the long run, the Government will ensure that the FRC continues to exercise stringent cost control and utilise its resources in an effective manner. At the same time, the Government will also attend to the FRC's financial position and consider different measures as and when necessary, including injection of additional funding, to ensure its financial competence.

(2) and (4) The Government will explore with the FRC ways to step up its work under the new regime in areas such as nurturing more professionals, strengthening continuing professional development, enhancing access to information on business opportunities, and reinforcing professional standards and competitiveness, so as to support the future development of the profession. The FRC will take into account the affordability of the profession in discharging its relevant function on the principle of supporting the profession. We will introduce amendments to the provision on the FRC's functions in the Bill to specify more clearly the FRC's role in promoting the development of the profession, such that the FRC will perform its independent regulatory functions while catering the needs for promoting development of the profession. The FRC will formulate various guidelines and policy documents to assist the accounting profession to understand the regulatory requirements and adapt to the new regime. It will engage the profession and listen to its views during the process.

(3) In order to facilitate the FRC's regulatory work under the new regime in relation to a variety of areas in accounting, audit and assurance, as well as promotion of development of the profession, the Government has proposed in the Bill the establishment of a statutory advisory committee to provide advice to the FRC. The statutory advisory committee will consist of practitioners, service users and other stakeholders of the accounting profession to ensure diversity of expertise.

(5) Under the new regime, the FRC will adopt the proportionality principle in the performance of its regulatory work. A higher level of regulatory control has been adopted on PIE auditors where significant interests of public investors are involved. For other practice units and certified public accountants, the regulatory requirements and the penalties for non-compliance will remain comparable to those currently provided in the Professional Accountants

Ordinance, which include the pecuniary penalty for disciplinary sanctions as capped at $500,000. We currently do not have plan to revise the maximum level of the pecuniary penalty for disciplinary sanctions. If there is a need for reviewing the relevant penalties in the future, the profession and relevant stakeholders will be consulted.

Yours sincerely,

(Billy AU)
for Secretary for Financial Services
and the Treasury

c.c.
Department of Justice (Attn: Ms Sandy HUNG
Mr Gary LI)