Accounting and Financial Reporting Council
會計及財務匯報局

Policy Statement for the Recognition of Overseas Auditors

Introduction

1. The Accounting and Financial Reporting Council (**the AFRC**) is an independent body established under the Accounting and Financial Reporting Council Ordinance (**the AFRCO**). The AFRC is entrusted with the statutory duty to regulate auditors of listed entities through a system of registration and recognition, and through inspection, investigation and disciplinary sanction.

2. This document sets out the requirements for the recognition of overseas auditors under Division 3 of Part 3 of the AFRCO. The requirements in this document are not applicable to the Mainland auditors endorsed in accordance with the mutual recognition agreement under section 20ZT of the AFRCO.

Definitions

3. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definition in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
IFAC	International Federation of Accountants	/
IFIAR	International Forum of Independent Audit Regulators	/
Listed entity	A listed corporation or a listed collective investment scheme	3(1)
Overseas entity	A collective investment scheme constituted under the laws of any place outside Hong Kong; or a body corporate incorporated outside Hong Kong, whether or not the scheme or body is a listed entity.	2(1)
PIE	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE auditor	A PIE auditor means a registered or recognised PIE auditor.	3A(1)

Terms	Meanings defined in the AFRCO	Section under the AFRCO
PIE engagement	A PIE engagement means any of the following types of engagement for the preparation of: - an auditor's report on a PIE's financial statements/ annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the ListingRules or any relevant code; - a specified report required to be included in a listing document for the listing of a corporation's share or stocks or for the listing of a collective investment scheme; or - an accountant's report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition.	3A(1)

4. Under section 20ZB(1) of the AFRCO, an overseas auditor must not "undertake" (i.e. accept an appointment for carrying out) any PIE engagement for an overseas entity unless –

   (a) a recognition application has been made in relation to the overseas auditor; and

   (b) the application has been granted.

5. Under section 20ZB(2) of the AFRCO, an overseas auditor must not carry out any PIE engagement for an overseas entity unless the auditor has been recognized as a PIE auditor of that entity by the AFRC.

Application

6. Who should apply?

   If an overseas entity proposes to appoint an overseas auditor to carry out a PIE engagement for it, the overseas entity must apply to the AFRC for the recognition of the overseas auditor as a PIE auditor of the entity.

An application for recognition will not be granted unless:

(a) a statement of no objection is provided by:

- the Hong Kong Exchanges and Clearing Limited to a corporation[1],or
- the Securities and Futures Commission to a collective investmentscheme

for appointing an overseas auditor to carry out a PIE engagement forit; and such statement has not been withdrawn;

(b) the overseas auditor is a member of, or registered with, an accountancy body that is a member of the IFAC; and is subject to theregulation of an overseas regulatory organization recognized by the AFRC; and

(c) the overseas auditor has adequate resources and possesses the capability to carry out a PIE engagement for the overseas entity.

Generally, an overseas regulatory organization is recognized by the AFRC, if it is a member of the IFIAR; or from a jurisdiction which has attained equivalence status granted by the European Commission under Article 46 of the Statutory Audit Directive 2006/43/EC.

7. How to apply?
An overseas entity is required to coordinate with the proposed overseas auditor to make an application.

For details of the application procedures and application forms, please referto *"Guide for the Recognition of Overseas Auditors"*.

Validity of the recognition

8. If the AFRC approves the application, an approval-in-principle is granted by the AFRC which is valid for 6 months from the date of the approval-in- principle being granted. The overseas auditor is recognized as a PIE auditor once the overseas entity has appointed the auditor and the auditor has undertaken the PIE engagement within the 6-month validity period.

9. If, by the end of the 6-month validity period, the overseas entity has not appointed the overseas auditor specified in the approval-in-principle to carry out a PIE engagement for it, or the overseas auditor has not undertaken the engagement, the overseas entity is required to make a fresh application if it subsequently proposes to appoint an overseas auditor.

10. The recognition of an overseas auditor is specific to the overseas entity who makes the application for recognition. Any other overseas entity proposing to appoint that particular overseas auditor to carry out a PIE engagement must make its own application for recognition.

[1] For details of the application of the statement of no objection provided by the Hong Kong Exchanges and Clearing Limited,please refer to the Frequently Asked Questions issued by The Stock Exchange of Hong Kong Limited at: https://en-rules.hkex.com.hk/sites/default/files/net_file_store/new_rulebooks/f/a/FAQ_059-067-2019.pdf

11. The recognition expires on 31 December of the year in which the recognition takes effect.

Renewal

12. The recognition of an overseas auditor as a PIE auditor is renewable annually. The application must be made by the overseas entity no earlier than 3 months, and no later than 45 days, before the day on which the current recognition expires.

13. For details of the renewal procedures and application forms, please refer to *"Guide for the Recognition of Overseas Auditors"*.

Termination of appointment of PIE auditor

14. The recognition of a recognized PIE auditor is revoked, when the appointment of the auditor for carrying out a PIE engagement for the overseas entity is terminated. The overseas entity is required, within 14 days after the date of termination, to inform the AFRC of the terminationby written notice.

Failure to meet certain requirements after recognition

15. If the overseas auditor recognized as a PIE auditor fails to meet a requirement specified in (b) and (c) under the section "Application" of this document, the overseas auditor is required, within 7 days after the day on which the failure begins, inform the AFRC of the failure by written notice.

Notification of changes in particulars of PIE auditor

16. If there is a change in the full name, business address, telephone number and/or electronic mail address of the overseas auditor recognized as a PIE auditor, the overseas auditor must, within 14 days after the day on which the change takes place, inform the AFRC of the change by written notice.

Recognition conditions, revocation and suspension

17. The AFRC may impose any conditions or amend an existing condition in relation to the recognition of a PIE auditor of an overseas entity either at the time of granting an application, or at renewal or any time when the recognition remains valid.

18. The AFRC may revoke or suspend the recognition of a PIE auditor of an overseas entity on non-disciplinary grounds under section 20ZS of the AFRCO.

19. The overseas entity is informed by written notice with a statement of the reasons for the decision; and a copy of the notice is issued to its overseas auditor.

Levy payable by PIE auditors

20. An overseas auditor recognized as a PIE auditor is required to pay an annual levy to the AFRC, calculated in accordance with Schedule 7 of the AFRCO.

Disclaimer

21. This document provides a summary for reference only. It is not legal advice. Applicants should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.