



Introductory message from the CEO

As we approach the end of our financial year, it is my pleasure to introduce the final edition of our e-News for 2021-22.

Reflecting back on the last year, I am reminded of my commitment in my first contribution to e-News in December 2020, that the FRC “would stand up for the interests of the investing public and the protection of the wider public interest in the growth and development of Hong Kong’s capital markets, in seeking to drive up the quality of listed entity financial reporting and audits.”

It has been an eventful and productive year for us with many challenges and opportunities. Given the ongoing impact of Covid-19, our budget for the financial year 2020-21 recognised the need to optimise fiscal discipline in the current economic circumstances, but we were determined to continue to deliver all our statutory functions effectively.

We published four reports on the progress and outcome of our work. These were our first annual and second interim inspection reports, our first annual investigation report and our second oversight report. We also published our second policy and governance report comprising Guidelines for audit committees on the selection, appointment and reappointment of listed entity auditors.

We have been making use of our reports to influence and shape the behaviours of our regulatees through guidance to the market that makes our expectations transparent and to provide a basis for engagement with our regulatees and other stakeholders. Such engagement enables us to explain our points of view and listen to theirs. You can read



more about our engagement relating to our most recent reports below. We also use our reports to remind and educate key stakeholders about the importance of effective governance and the responsibilities of Boards, Management and Audit Committees for listed entity financial reporting.

Collaboration with local, Mainland and international regulators is also critical to achieving our mission efficiently and effectively. During the year, we joined IOSCO as an affiliate member. We also entered into new or updated MoUs with four local regulatory bodies and enforcement agencies. This has already enabled us to strengthen our sharing of intelligence, referrals of cases and operational collaboration.

We also continued to build a strong relationship with the Supervision and Evaluation Bureau of the PRC Ministry of Finance both through co-operation on individual cases and collaboration on other matters of mutual interest, despite constraints during the year on face to face meetings due to the impact of the pandemic on travel between the Mainland and Hong Kong.

As we approach the end of 2021-22, the synchronisation of the current reporting season with the highly contagious fifth wave of the pandemic and a new high point in the impact of the “Great Resignation” is conspiring to create significant resourcing challenges for PIE auditors in the current environment. This is posing significant risks to the quality of listed entity audits.

On 7 March 2022, based on our outreach to PIE auditors, I wrote an [open letter to the Chair of the Hong Kong Association of Registered Public Interest Auditors](#) to acknowledge the significant challenges being faced by PIE auditors. I also reiterated our expectations for the pivotal role that PIE auditors play in ensuring that the quality of financial reporting by listed entities is not compromised. I encouraged even closer dialogue between PIE auditors and their listed entities’ managements and audit committees to manage any challenges to the reporting timetable as early as possible and urged them to speak directly and immediately to the FRC in the event they face undue challenges.

Our preparations for the adoption of our expanded role as the Independent Regulator of the Accounting Profession continue to be our highest priority. On 7 March, the Government presented our proposed budget to the Legislative Council on Financial Affairs. On 9

March 2022, we launched an [“Engagement and Consultation Paper”](#) covering all of our new functions and entered into a period of engagement that will continue through the remainder of March and April, with our consultation closing on 4 May. You can read more about our progress and our engagement and consultation below.

Progress Update on Further Reform

In preparation for the further reform of the regulatory regime of the accounting profession, we have devoted ourselves to the development of policies and procedures for our new functions. Embodying the principle of proportionality in our regulatory approach, they are designed to set out the legal framework under which we will perform our new functions and to provide an outline of the important due processes to follow for each of the new functions. These are important documents that explain to the public and the accounting profession what we do and how we do it, and also serve as a guide to our own staff of the important legal and operational parameters for the new functions.

These proposed policies and procedures were published on 9 March 2022. They form an important part of the stakeholder engagement which is currently taking place. Some of them relating to the disciplinary function are the subject of a public consultation being held at the same time, which is discussed further below. We have organised an extensive engagement programme including meetings and webinars to explain our regulatory approach to relevant stakeholders and to collect their views on our proposals, to ensure that our proposals meet the needs of the profession and the public interest.

At the same time, we have been working very closely with the Government and the HKICPA to come up with a set of transitional arrangements that are efficient and practical. An important consideration in the design of those arrangements is that they must address the needs of the profession and cause as little disruption as possible. Those proposed arrangements must also be properly provided for in the draft subsidiary legislation, to ensure a seamless takeover of the new functions by the FRC by the commencement date of the new regulatory regime.

Public Consultation in relation to our Disciplinary Function

As part of our [“Engagement and Consultation Paper”](#) published on 9 March 2022, we launched a consultation paper ([“Consultation Paper”](#)) on the proposed policies and processes in relation to our disciplinary function. The public consultation runs until 4 May 2022.

Under the regulatory reform, our disciplinary powers will be expanded to cover professional persons (i.e. CPAs and practice units), in addition to our existing regulatory powers over PIE auditors and registered responsible persons. In view of the expanded remit, we have formulated new policies and guidelines in respect of the disciplinary function over professional persons. We have also conducted a comprehensive review of our existing disciplinary policy and guidelines for PIE auditors and registered responsible persons. For transparency, and to gather the views of the accounting profession, stakeholders and wider public, a public consultation and stakeholder engagement exercise is being conducted on the following five documents:

- (i) Outline of the AFRC’s Disciplinary Process;
- (ii) Guidelines for Exercising the Power to Impose a Pecuniary Penalty for PIE Auditors and Registered Responsible Persons;
- (iii) Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons;
- (iv) Sanctions Policy for PIE Auditors and Registered Responsible Persons; and
- (v) Sanctions Policy for Professional Persons.

In conjunction with the five documents, and to provide more background to the public to understand our disciplinary powers and approach to cooperation, we also include in the Consultation Paper the following three engagement documents:

- (vi) Discipline Policy Statement for PIE Auditors and Registered Responsible Persons;
- (vii) Discipline Policy Statement for Professional Persons; and
- (viii) Guidance Note on Cooperation with the AFRC (**“Guidance Note”**).



Dr Kelvin Wong, Chairman (middle), Mr Marek Grabowski, CEO (right), and Ms Hester Leung, Head of Discipline of the FRC present to media the Engagement and Consultation Paper on further reform of the accounting profession on 9 March 2022.

Our proposed disciplinary process strikes a balance between fairness, impartiality and transparency on the one hand, and the need to ensure efficient resolution of disciplinary cases on the other. The process is largely in line with that adopted by other local financial regulators, which is well tested in the courts and with which the market is familiar. Sufficient safeguards are put in place for the regulatee. The regulatee will have a reasonable opportunity to be heard, as well as a right to review our decision by an independent tribunal and further right of appeal to the Court of Appeal.

In relation to sanctions, we will adopt a principle-based approach:

- the sanctions we impose will be proportionate to the conduct;
- we will consider a wide range of factors on a case-by-case basis, such as the nature, seriousness, frequency, duration, and impact of the conduct, as well as any aggravating and mitigating factors; and
- we will take into account the types of sanctions available, including the maximum pecuniary penalty under the law for each misconduct, which is HK\$10,000,000 or 3 times the amount of the profit gained or loss avoided as a result of the misconduct for PIE auditors and registered responsible persons, and HK\$500,000 for professional persons.

Particular attention is drawn to the Guidance Note, which provides transparency and clarity on our approach to cooperation, and our views on what constitute cooperative and uncooperative conduct by regulatees. We encourage self-report of misconduct and taking of proactive steps to remediate. Providing early and full cooperation may result in a reduction in the level of sanctions imposed. However, for cooperation to be recognised, regulatees must go above and beyond their statutory and regulatory obligations.

Sharing the findings and recommendations of our regulatory reports

Following the publication of our second Interim Inspection Report and our first Annual Investigation and Compliance Report in November 2021, the FRC has organised two webinars and a workshop for members of several professional bodies to enable them to gain an in-depth understanding of our findings, recommendations and expectations.

On 16 December 2021, the FRC hosted a workshop for members of the Chamber of Hong Kong Listed Companies (CHKLC). Ms Joyce Woo, Director of Investigation and Compliance and Ms Angela Tsang, Director of Inspection presented the findings of the two reports including the common accounting non-compliance and auditing irregularities or misconduct and advised participants on how to avoid their recurrence.

The FRC collaborated with the Association of Chartered Certified Accountants (ACCA) to roll out a webinar for its members on 6 January 2022 in which Mr TS Chan, Deputy Head of Investigation and Compliance and Ms Eva Lau, Acting Head of Inspection also presented our findings and recommendations. The webinar attracted over 400 participants whose feedback indicated that it was informative and useful.



Ms Eva Lau (centre) and Mr TS Chan(right) share findings of inspections and investigations at the webinar for members of ACCA

On 28 February 2022, a webinar was held for 150 members of the HKICPA. At the webinar, Mr TS Chan and Ms Eva Lau highlighted the major findings identified and recommendations on how audit quality and the quality of financial reporting can be improved. They also shared examples of good practices and the expectations and roles of boards and management of listed entities, their audit committees and auditors in ensuring audit quality. Apart from raising questions about the findings, participants showed a keen interest in the transition arrangements in relation to the further reform of the accounting profession.

Webinars on Audit Committee Guidelines

On 16 December 2021, the FRC published the [Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors \(the Guidelines\)](#) to encourage audit committees to adopt best practices in selecting quality auditors that will enhance the quality of financial reporting.

To promote active adoption of [the Guidelines](#), the FRC hosted a briefing with the Hong Kong Institute of Directors on 25 March 2022 and the Chamber of Hong Kong Listed Companies on 29 March 2022. Over 130 company directors, audit committee members, as well as executives and senior management of listed companies participated in the webinars.

Mr Ambrose Wong, Acting Head of Oversight, Policy and Governance, and Ms Tracy Chan, Director of Oversight, Policy and Governance, shared with the participants factors to consider in evaluating the quality of auditors and audit fee levels; key issues that audit committees should consider when auditors resign or when audit committees are considering whether to remove the auditor; and the recommended disclosures in the corporate governance reports. Mr Wong and Ms Chan also highlighted that audit fees should not be set at a level that compromises audit quality.

The FRC will conduct more seminars and briefings on [the Guidelines](#) to further engage with audit committees and other stakeholders.

Contacts

If you have any enquiries or comments, please feel free to contact us.

Financial Reporting Council

24/F, Hopewell Centre,
183 Queen's Road East,
Hong Kong

Tel: (852) 2810 6321

Fax: (852) 2810 6320

Email: general@frc.org.hk

Website: www.frc.org.hk

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