



Progress Report **1 Apr 2019 -** **31 Mar 2020**

Efficient Process, Effective Outcome

May 2020



Transformation of the FRC

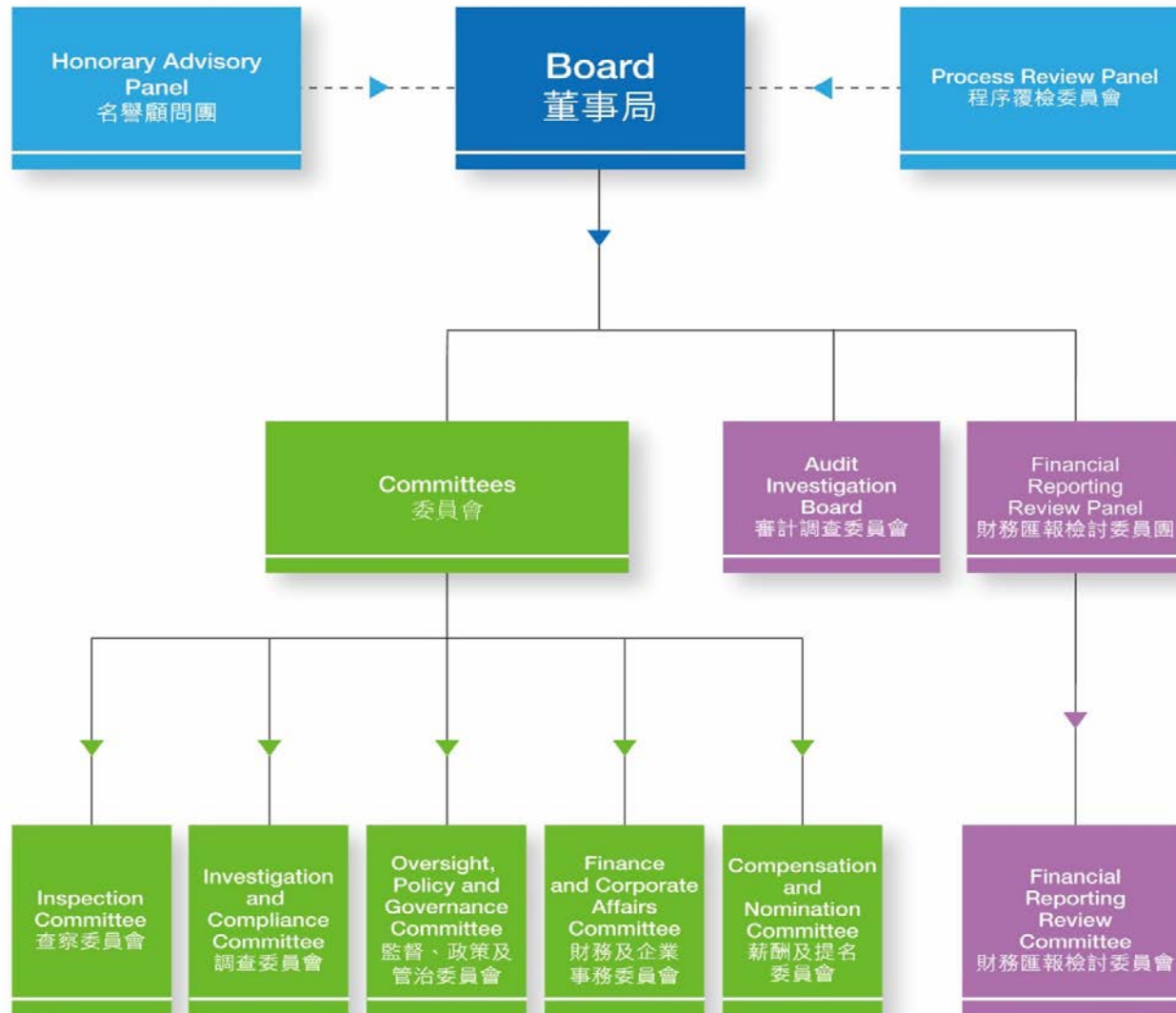
Presented by
Dr Kelvin Wong
Chairman

Efficient Process, Effective Outcome

The full-fledged independent oversight body of auditors of listed entities (“PIEs”) of Hong Kong

- Inspection
- Investigation and enquiry
- Discipline
- Recognition of overseas auditors
- Oversight of HKICPA’s performance on areas in relation to PIE auditors:
 - Registration of local auditors
 - Setting of standards on professional ethics, auditing and assurance
 - Setting of continuing professional development requirements

Governance structure - Oversight

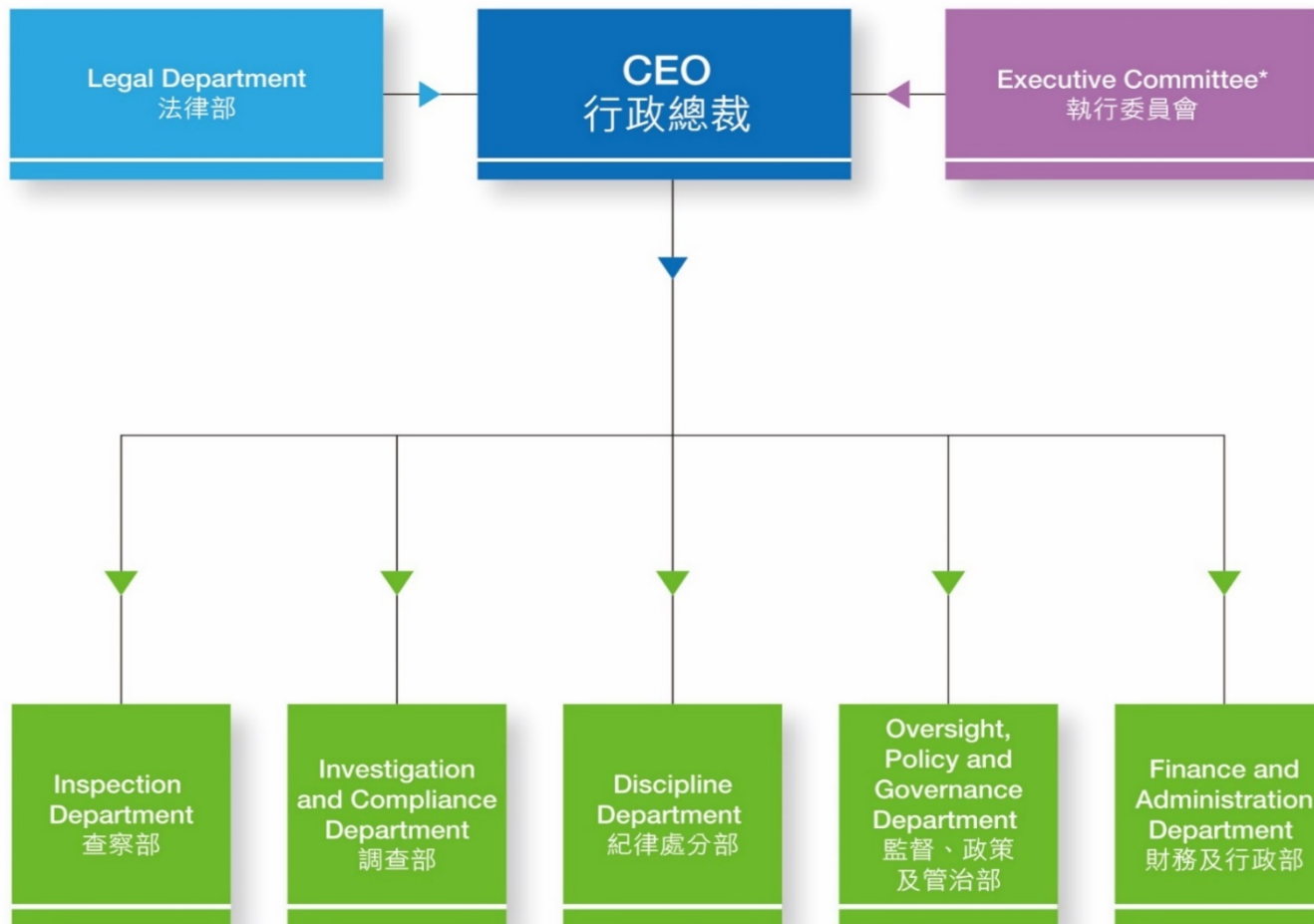


Board composition

- 15 Directors appointed by the Chief Executive
 - The number of non-executive directors (NED) must exceed executive directors (ED)
 - 93% NED, 7% ED
 - Chairman – non-executive director
 - 13 other non-executive directors
 - 1 executive director
 - All are non-practitioners*
 - 53% (8) non-accounting/audit professionals
 - ❖ 20% (3) legal professionals
 - ❖ 33% (5) bankers/financiers/businessmen
 - 47% (7) accounting/audit professionals

* A non-practitioner – a person who is not, or has not within the previous 3 years been, a CPA (practising); or a partner, director, agent or employee of a practice unit

Management process



* The Executive Committee comprises CEO, Heads of Departments and General Counsel

Scaling up the talent pool

Date	Investigation and Compliance	Inspection	Oversight, Policy & Governance	Discipline	Legal	Finance & Administration	Total
1 Apr 2019	17.5 [#]	-	-	-	1	7.5 [#]	26
30 Sep 2019	17.5 [#]	-	-	-	1	6.5 [#]	25
31 Mar 2020	13.5 [#]	8	4	1	2	9.5 [#]	38

One management staff is both Head of Investigation and Compliance and Head of Finance and Administration and therefore the headcount is split between the two departments.

- Continue to scale up talent pool across different functions

Developing policies and procedures

- Developed policies and procedures for statutory functions:
 - Recognition of overseas auditors
 - Inspection
 - Investigation
- Thorough consultations with stakeholders at meetings and briefings
- Published on website on 30 Sep 2019
- Avoid over-regulation or under-regulation to deliver effective regulatory outcome

Process Review Panel (“PRP”)

- 6 complaint/investigation/enquiry cases (covering ongoing cases lasted for more than one year and those completed in 2018) were selected for review in the 11th review cycle
- 24 April: Concluded all cases had been handled in accordance with internal procedures of the FRC
- FRC to submit new procedure manuals of regulatory functions for review and advice



Report on Major Work Done

Presented by
Ms Florence Wong
Acting CEO

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Oversight, Policy and Governance

- 27 Sep 2019: Signed a Statement of Protocol on Oversight Arrangements with HKICPA
- 1 Oct 2019 – 31 Mar 2020: Observed 6 committee meetings of HKICPA
- 1 Oct 2019 – 31 Mar 2020: Approved 78 recognition applications of non-Hong Kong auditors

Inspection

- Jan 2020: Approval of inspection manual by the Board
 - 3-year inspection cycle aligned with international practice
- Jan – Feb 2020: 8 individual meetings and 3 group briefings were arranged for PIE auditors to explain inspection scope, process, reporting and arrangements for 2020
- Mar 2020: Discussions with HKEX and SFC on information sharing for better discharge of regulatory duties

Investigation and Enquiry

Handling of pursuable complaints

	1 Apr 2019 – 31 Mar 2020
Brought forward	13
Received	52
Completed with no follow-up action	(36)
Referred to specified enforcement agencies	(1)
Initiated investigation and/or enquiry	(5)
Carried forward	23

Investigation and Enquiry

Investigation

	1 Apr 2019 – 31 Mar 2020
Brought forward	45
Initiated*	9
Completed	(11)
Carried forward	43

* The number of cases initiated is dependent on the substance of the underlying issues of complaints and financial statements reviews

Investigation and Enquiry

Enquiry

	1 Apr 2019 – 31 Mar 2020
Brought forward	2
Initiated	1
Completed	(1)
Carried forward	2

Discipline

- Mar – Apr 2019: Consultation on proposed sanctions guidelines
- May 2019: Comments considered and sanctions guidelines revised appropriately
- Sep 2019: Sanctions guidelines approved by the Board and published on website and communicated to stakeholders
- Sep 2019: Guidelines for Exercising the Power to Impose a Pecuniary Penalty as required under S37H of the FRCO gazetted

Connections with local, overseas and Mainland regulators

Local

- Regular liaison meetings with SFC (3), HKEX (4) and HKICPA (4)

Overseas

- Attended meetings/conferences (6) with overseas regulators, including IFIAR and UK Financial Reporting Council

Connections with local, overseas and Mainland regulators (cont'd)

Mainland

- 22 May 2019: Signed a Memorandum of Understanding with PRC's MoF on gaining access to audit working papers
- 14 Nov 2019, 24 Feb and 25 Mar 2020: Requests for assistance for 11 investigation cases made to MoF
- 15 Jan and 19 Mar 2020: Discussions on future cooperation in inspection and investigation

Stakeholder engagement and media relation

- Stakeholder engagement:
 - Discussion with SFC, HKEX and the Hong Kong Institute of Directors (HKIoD) on regulatory issues arising from outbreak of COVID-19 including ensuring audit quality and independence
 - 6 Feb 2020: Published e-news to provide advice to auditors, preparers of financial statements and audit committees
 - 29 Feb 2020: Being a panelist at HKIoD Webinar

Stakeholder engagement and media relation (cont'd)

- Revamped website to provide up-to-date information about the FRC and our statutory functions
- Media relations:
 - 6 interviews with newspapers and official magazines of professional bodies to introduce the new FRC
 - Responded swiftly to media enquiries
 - Published press releases, e-newsletters and annual report
 - 120 positive news clippings/reports (43% up from previous reporting period)



Work Plan (1 Apr 2020 – 31 Mar 2021)

Presented by
Ms Florence Wong
Acting CEO

To deliver effective regulatory outcomes

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Inspection

- Carry out inspection of 18 PIE auditors, covering their firm-wide quality control systems and 40 PIE engagements completed after 1 Oct 2019

Investigation and enquiry

- Handle complaints, enquiry and investigation cases by following internal policies and procedures, setting targets
- Review how to further enhance efficiency and regulatory outcomes

To deliver effective regulatory outcomes (cont'd)

Oversight of HKICPA

- 1 Apr – 31 Dec 2020: Observe 14 committee meetings of HKICPA
- Apr – May 2020: On-site assessment of HKICPA
- Aug/Sep 2020: Performance report

Recognition of overseas auditors

- Review new applications
- Review renewal applications of 25 overseas auditors whose recognition will expire by end of 2020

To deliver effective regulatory outcomes (cont'd)

Discipline

- Develop the procedure manual for handling possible misconduct cases
- Research into enforcement practice of other financial regulators
- Expected to finalise in Aug 2020

To promote good corporate governance

- Conduct in-depth research on audit and financial reporting issues so as to:
 - Set policies and provide guidance which are conducive to achieving effective regulatory outcome;
 - Add value to the long-term development of the financial industry of Hong Kong

To strengthen international relations

- Continue strengthening relationship with local, international and Mainland regulators
- Organise a forum on independent auditor oversight at the end of 2020 or beginning of 2021



Funding Arrangement and Financial Position

Presented by
Ms Florence Wong
Acting CEO

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Funding arrangement

- Before 1 Oct 2019: jointly funded by the Companies Registry Trading Fund, HKEX, HKICPA and SFC
- 8 Aug 2019: Seed capital of HK\$400 million from HKSAR Government
- From 1 Jan 2022: funded by levies from
 - Sellers and buyers of securities transactions (50%)
 - PIEs (25%)
 - PIE auditors (25%)

Financial position

– Income and expenditure

	1 Oct 2019 – 31 Mar 2020 HK\$ (Million)	1 Jan 2019 – 30 Sep 2019 HK\$ (Million)
Grant income	28.11	1.08
Annual contribution	N/A	33.99
Other income	5.29	2.51
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	33.4	37.58
Recurring operating expenditure	(30.02)	(30.75)
Depreciation of capital expenditure for new office and IT infrastructure	(0.79)	(0.0)
Staff recruitment expenses for new functions	(2.59)	(0.0)
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Surplus for the period*	0.0	6.83

* As the operations of the FRC during the levy exemption period were financed by the grant income, no surplus or deficit was recorded from 1 Oct 2019 to 31 Mar 2020

Financial position

– Usage of seed capital

	HK\$ (Million)
Seed capital received from the Government on 8 Aug 2019	400
Less:	
- Capital expenditure	13.94
- Staff recruitment and other expenses for new functions	3.67
- Subsidy of net operating expenses during the period of levy exemption (Oct 2019 – Mar 2020)	24.73*
Balance as at 31 Mar 2020	357.66

* Represented recurring operating expenditure of HK\$30.02 million (comprised mainly salaries and bonus of HK\$18.87 million and premises related expenses of HK\$6.2 million) less income of HK\$5.29 million (comprised mainly interest income of HK\$4.6 million)



Concluding Remarks and Vote of Thanks

Presented by
Dr Kelvin Wong
Chairman

Efficient Process, Effective Outcome

Concluding remark

- Challenging financial and socio-economic outlook ahead
- Committed to upholding quality of financial reporting, enhancing investor protection and strengthening Hong Kong's position as a competitive international financial centre
- **Efficient Process, Effective Outcome**

Vote of thanks

- LegCo members
- FSTB for staunch support over the years
- Funding parties – Companies Registry, HKEX, HKICPA, SFC
- Process Review Panel for oversight of our policies and procedures and suggestions for improvement



Website
www.frc.org.hk

Telephone
(852) 2810 6321

Fax
(852) 2810 6320

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