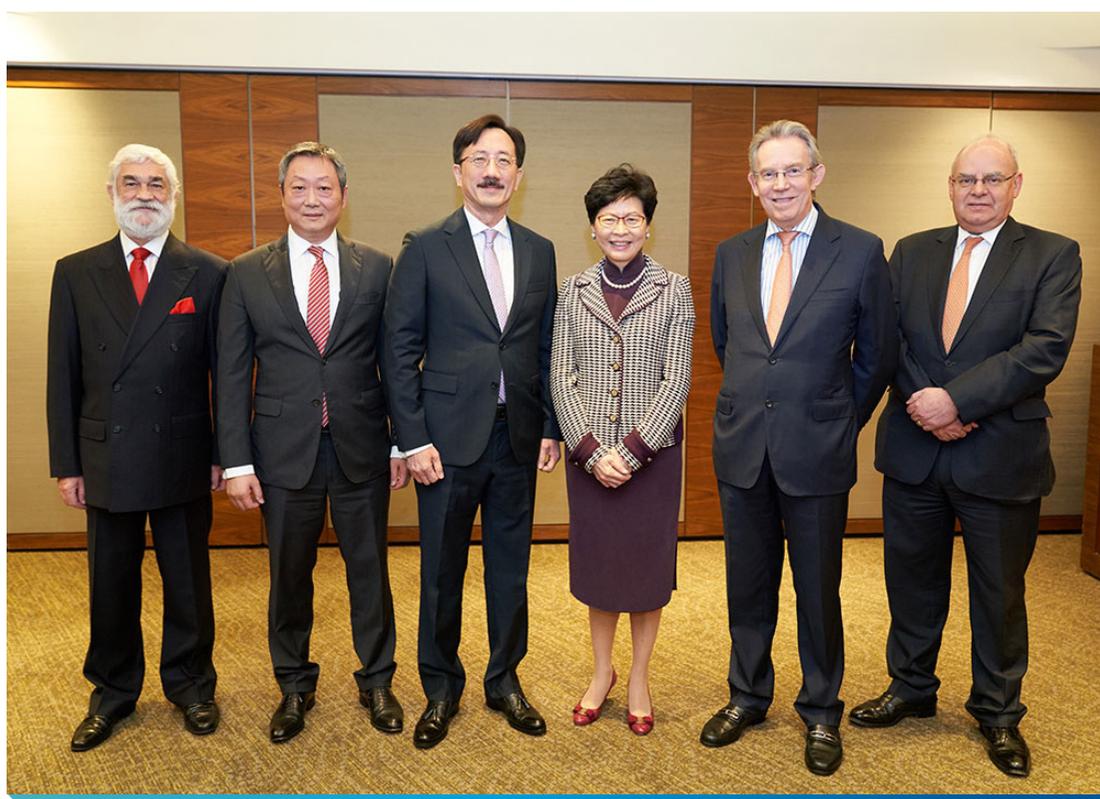


Solid Foundation Laid for Implementing the Internationally Aligned Auditor Regulatory Regime

On 2nd November 2018, the Government announced the appointment of a new Chairman and four new Council Members succeeding those retiring members who have served the FRC for the last six years. To bid farewell to the Chairman Dr John Poon and the retiring Council Members Mr Nicholas Sallnow-Smith, Mr Sin Chung-kai and Mr David Stannard, a dinner was held on 22nd November 2018 in appreciation of the sterling service they have given us. As a fitting tribute, the occasion was graced by the presence of the Chief Executive, the Honourable Mrs Carrie Lam as our Guest of Honour. The achievements of the FRC can be best summarised by the Chief Executive in her remarks at the dinner, “I want to take this opportunity to come, to especially thank FRC for your wonderful work over the past decade, for the six years that Dr Poon has led and has done great regulatory reform proposals to the Government, and to wish the incoming Chairman good luck.”



The Honourable Mrs Carrie Lam (centre) with Dr John Poon, Chairman (3rd from left), Mr Nicholas Sallnow-Smith, retiring Council Member (2nd from right), Mr David Stannard, retiring Council Member (1st from right), Dr Kelvin Wong, Council Member & incoming Chairman (2nd from left) and Mr Paul F. Winkelmann, CEO (1st from left)

This is an opportune time to look back over the achievements of the FRC under the leadership of Dr Poon.

Auditor Regulatory Reform – championing the public interest

As a leading international financial centre, Hong Kong’s capital market has evolved and grown tremendously, reaching a market capitalisation of over HK\$30 trillion with over 2,200 listed entities. In fact, Hong Kong is the fastest growing capital market and the third largest market after New York and London. To perpetuate this commendable achievement, enhanced investor protection benchmarked to the highest international standards and practices is needed. The FRC has been advocating, in the best interest of Hong Kong, for an overhaul of the auditor regulatory regime from “self-regulation” to “independent oversight”.

Reform is never an easy journey. It calls for vision, perseverance and an unswaying will to make things happen. The first important step dates back to December 2012 when the Independent Audit Oversight Reform Committee (IAORC) was established, chaired by Dr Poon, to advise Council of the FRC on matters related to the reform.

The first recommendation of the IAORC was to commission, in 2013, an international comparative study on independent auditor oversight in major capital markets. This not only enabled the FRC to keep abreast of international standards and practices, but also formed the basis of our various submissions to the Government to further enhance Hong Kong’s auditor regulatory regime. The study identified the areas Hong Kong needed to focus on in order to meet international benchmarks. First and foremost, the auditor regulator should be independent of the audit profession. Secondly, the independent auditor regulator should have ultimate responsibility for inspection, investigation, enforcement, registration, setting of standards on professional ethics and auditing, and continuing education, rather than just being an auditor investigator.



Dr Poon introduces the 2013 Report on Independent Audit Oversight

Following the study, the Government issued its 2014 public consultation in which it proposed to close the identified gaps and bring Hong Kong in line with the then international practices. In 2015, the Government issued its consultation conclusions while the international auditor regulatory landscape had continued to evolve. Our advocacy for reform continued during and after the public consultation, including the publication of our 2016 update which confirmed that the Government's reform proposals would meet the latest international norms except for one fundamental "principle of public oversight": the auditor regulator shall be governed solely by non-practitioners.



The FRC presents the 2016 Update on Independent Audit Oversight Report

On 24th January this year, the FRC reached another important milestone when the Government introduced the FRC (Amendment) Bill 2018 to LegCo. Under the Bill, the FRC will become a fully fledged auditor regulator, with all the requisite powers and functions in respect of listed entity auditors, as identified in our 2013 study. The Bill will also enable the FRC to become a member of the International Forum of Independent Audit Regulators whose role is to facilitate its members from around the world to share their regulatory experience and inspection findings with the aim of enhancing audit quality globally.

To enhance Hong Kong's reputation as an international financial centre and to strengthen protection for the investing public, Dr Poon, with the support of Council, reiterated to senior Government officials on various occasions in the ensuing months the need to entrench in our laws the latest norm for the governance of auditor regulators worldwide. Mandating that the FRC post-reform shall comprise non-practitioners only will enable the FRC to meet the European Commission's "adequacy" requirements and enter into cooperation arrangements with key overseas regulators for accessing confidential information located outside of Hong Kong – a must for effective regulation of overseas auditors engaged by entities listed in Hong Kong.

As a result, at the 6th Bills Committee meeting held on 29th October 2018, the Government proposed to amend the Bill to mandate that the FRC post-reform shall consist of non-practitioners only. As a further endorsement of the expanded role of the FRC, the Chief Executive announced in her 2018 Policy Address that no less than HK\$300 million seed capital will be provided to facilitate our smooth transition to the new auditor regulatory regime.

"These amendments to the FRC Ordinance will be very significant and very timely because I feel that our financial services still have potential to grow, especially with the further reform and opening up of the Mainland of China, the 'Belt and Road' and Brexit, and all these other things happening all over the world," the Chief Executive remarked at the FRC dinner.



We now look forward to the smooth passage of the Bill in early 2019 and are preparing to take on the new challenges as the independent auditor regulator for Hong Kong.

Strengthening the governance structure and enshrining our core values

Since the commencement of his chairmanship, Dr Poon has introduced a series of initiatives which have enhanced our governance structure to meet the anticipated demands of a broadening portfolio of work, along with evolving regulatory developments. One such initiative was the formation of the Honorary Advisory Panel, currently comprised of 19 highly respected individuals from different sectors encompassing accounting, auditing, business and legal. By leveraging on their wealth of experience, the FRC has been able to achieve the highest quality and efficiency.

We also strengthened the FRC's committee structure. Our five committees including the IAORC, the Finance Committee, the Corporate Communications Committee, the Operations Oversight Committee and the Remuneration Committee were formed to advise the Council within their respective terms of reference. Each committee has a majority of Council Members and all Council Members sit on at least one committee. Remaining Committee members generally comprise Honorary Advisors. The involvement of members has been broad and deep, as is demonstrated in their consistently high attendance rate (83% on average and some as high as 93%).

All this has led to the healthiest governance structure and an embracing culture within the FRC which embodies our core values – “integrity”, “proficiency”, “independence and impartiality”, “accountability and transparency”.



Dr Poon, Council Members and senior colleagues at the 8th November 2018 meeting

Enhancing operational efficiency and effectiveness

From time to time, we examine our operational procedures to identify areas for improvement and efficiency, but never at the expense of quality. A recent Process Review Panel's review commented favourably on the improvements achieved. We also critically reviewed our Financial Statements Review Programme and brought it fully in-house which led to the timely completion of reviews. The results of these initiatives equipped us to handle the ever-increasing caseload as demonstrated in the table below:

Number of cases completed from 2013 to 2018

	2013	2014	2015	2016	2017	2018 (as at 30 th Nov)
Complaints completed	6	43	36	128	126	88
Investigations completed	5	4	9	11	11	16
Enquiries completed	2	1	0	1	0	1

Throughout the years, the FRC has always ensured that natural justice (including the right to be heard), fairness and due process are fully embedded in our investigations. During the period, the Council has adopted over 50 investigation reports of the Audit Investigation Board. These comprehensive reports are admissible as evidence in any subsequent disciplinary proceedings against auditors of listed entities.

Attracting and retaining talent

The FRC firmly believes that human capital is our most valuable asset. The FRC has grown from strength to strength with the recruitment of highly qualified professionals. In the past six years, a number of new positions - Deputy CEO, General Counsel and Senior Directors - have been created to cater for our expanding operational needs. Currently, the FRC has 27 full-time staff (of which 17 are qualified professionals) who perform their roles with the highest degree of professionalism and integrity. To cultivate the existing talent pool, we organise different areas of training on a regular basis to keep them up-to-date not only with accounting and auditing standards, but also to sharpen other skills necessary to complement their investigation work.

Continuing professional development for FRC staff



Close collaboration with local, mainland and international auditor regulators

The FRC stays closely connected with auditor regulators in Hong Kong, the Mainland and around the world. Locally, we engage in regular meetings with our regulatory counterparts including the HKICPA, SFC and HKEX with a shared mission of enhancing investor protection. Over the past six years, over 200 cases have been referred to the HKICPA for their follow-up actions. Our seamless and effective collaboration has strengthened investor protection and contributed significantly to reinforcing Hong Kong's reputation as a world-class international financial centre.

We have a Memorandum of Understanding with the Ministry of Finance of the People's Republic of China (MoF) which has facilitated cross-border cooperation in relation to Mainland auditors engaged by Mainland entities listed in Hong Kong. We have had recent discussions with the Ministry on enhancing these arrangements in anticipation of our new role as the independent auditor regulator of Hong Kong; in particular gaining access to audit working papers located in the Mainland.



MoF visits the FRC

We have established solid relationships with our international regulatory counterparts such as the UK Financial Reporting Council (UK FRC) and the US Public Company Accounting Oversight Board who have paid us courtesy visits from time to time to learn about the latest developments of the auditor regulatory reform, and to share with us their invaluable insight and experience.



A dialogue with the UK FRC

Communication with the investing public and the media

To ensure that our stakeholders and the investing public have easy access to information about the FRC, we have created different communication channels. We have made continuous improvements to our website www.frc.org.hk and make use of social media platforms to connect with our stakeholders. We also publish bi-annual e-newsletters to educate the public on accounting and auditing issues and keep them informed of the latest developments of the FRC. Annual reports are published to give a comprehensive review on our operations, achievements and financial affairs.



Dr Poon answers media enquiries at the 2018 Press Conference

The FRC values its relationship with the media. We host press conferences and briefings from time to time to answer questions and clarify issues. The Chairman has also met with a number of editors-in-chief of local newspapers to explain to them in detail the importance of the auditor regulatory reform to Hong Kong and promote the views of the FRC. His efforts in reaching out to the media have earned us not just friends from the media but also extensive media coverage over the years. The press conferences held in 2013, 2016 and 2018 were under the spotlight of a good number of local and international media which helped promote the key messages on Hong Kong's auditor regulatory reform and successfully raised the profile of the FRC among the general public.

Recognition and support

We are very grateful for the recognition and support shown to the FRC. This is demonstrated in several ways including the substantial involvement of Council, Committee members and our Honorary Advisors together with the Financial Reporting Review Panel members. In addition, the financial support from our four funding parties i.e. the Companies Registry Trading Fund, the HKEX, the HKICPA and the SFC has not only given us the essential resources to perform our statutory duties but also represents due recognition given to our role in upholding the quality of financial reporting.

Last but not least, none of this progress could have happened without the considerable support from the Financial Services and the Treasury Bureau.



Mr Andrew Wong, Permanent Secretary for Financial Services and the Treasury (centre) and Ms Winnie Ng, Deputy Secretary for Financial Services and the Treasury (4th from right, front row) join the FRC Council and Committee Members in bidding farewell to retiring Council Members and welcoming the newly appointed Members.

The contributions made by the FRC were also recognised by Mr James Lau, Secretary for Financial Services and the Treasury in a Government press release of 2nd November 2018, “Under Dr Poon's leadership and with the support from Members, the FRC has been faithfully discharging its statutory duties as an important regulatory body in upholding the quality and integrity of financial reporting in Hong Kong and in safeguarding the interest of the investing public. During his tenure as the Chairman, Dr Poon has led the FRC in laying a solid foundation for its new role as a full-fledged independent oversight body for auditors of listed entities upon the enactment of the FRC (Amendment) Bill 2018.”

Bidding farewell with heart-felt gratitude and best wishes

The above enviable accomplishments would not have been achieved if not for the Chairman's outstanding and visionary leadership in the past six years. He has been a compass and beacon for the FRC and has led us safely through the transformational journey, punctuated by tough challenges at times. Our CEO added, "With Dr Poon's leadership and focus, we have also built a very strong, competent and cohesive team which is ready to take on our new role."

On a closing note, we would like to bid farewell and express our heart-felt gratitude to our retiring Chairman Dr Poon and former Council Members - Mr Sallow-Smith, Mr Sin and Mr Stannard.



Dr Poon receives a souvenir from Dr Wong and Mr Winkelmann

At the same time, we wish to extend our warmest welcome to our new Chairman Dr Kelvin Wong, and four new Council Members, Mr Eugene Fung, SC, Mr Stephen Hung, Ms Miranda Kwok and Ms Rosita Lee. We are confident that with the unwavering support from the new and reappointed Council Members, the FRC will continue to strive for quality and will effectively discharge its new role as the internationally aligned independent auditor regulator for Hong Kong.

Contacts

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