

Press release

LCQ1: Financial reporting requirements of the Hong Kong Exchanges and Clearing Limited for listed companies incorporated in overseas jurisdictions

Wednesday, April 28, 2010

Following is a question by the Hon Paul Chan Mo-po and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (April 28):

Question:

It has been learnt that quite a number of Hong Kong listed companies incorporated in other jurisdictions are currently exempted by the Hong Kong Exchanges and Clearing Limited (HKEx) from having their financial statements audited annually by certified public accountants (practising) in Hong Kong. In this connection, will the Government inform this Council:

(a) whether it knows the current number of Hong Kong listed companies which have been granted the aforesaid exemption, in which countries are they mostly incorporated, when they started engaging accountants who do not hold a practising certificate in Hong Kong to audit their financial statements, and the places where such accounting firms are registered; what criteria HKEx has adopted in exercising the aforesaid power of exemption; whether approval from other authorities or government departments is required before HKEx exercises such power, and the application procedure for such an exemption;

(b) whether the Government, HKEx and the Securities and Futures Commission have consulted the trade and market stakeholders before making the aforesaid exemption arrangements; if so, of the details, including when consultation was conducted, names of the organisations consulted, contents of the responses received, when and how the outcome of consultation was announced, as well as the justifications for deciding to make the exemption arrangements; if consultation has not been conducted, of the reasons for that; and

(c) whether it knows how HKEx ensures that the practising standards of the accountants who do not hold a practising certificate in Hong Kong and the professional standards they adopt meet the Hong Kong requirements; how the authorities ensure that timely and effective investigations and disciplinary proceedings can be carried out by the regulatory authorities when irregularities have been uncovered in the accounts of such listed companies, and the details of the mechanism for carrying out such investigations and disciplinary proceedings?

Reply:

President,

My reply to the question is as follows:

(a) and (b) As at 31 March 2010, there were 1,332 companies listed on the Stock Exchange of Hong Kong (SEHK) of which 202 were incorporated in Hong Kong and the remaining 1,130 were incorporated outside Hong Kong. Seven of these non-Hong Kong incorporated companies employed non-Hong Kong auditors. These companies were incorporated in the United Kingdom, Canada, Cayman Islands and Singapore. Other details are set out at Annex.

The non-Hong Kong auditors were employed by these seven companies in accordance with relevant provisions of the Listing Rules. No granting of exemption is involved.

According to Main Board Listing Rule 19.20 and GEM Listing Rule 24.13, the annual accounts of overseas issuers must be audited by a practising accountant (Note) of good standing and independent of the overseas issuer. The practising accountant must either be a member of the Hong Kong Institute of Certified Public Accountants holding a valid practising certificate, or be a firm of accountants acceptable to SEHK which has an international name and reputation and is a member of a recognised body of accountants.

The above requirements in the Listing Rules have been in operation for over

20 years. If a company incorporated outside Hong Kong wishes to employ non-Hong Kong auditors, the company concerned must show to SEHK that the non-Hong Kong auditor it wishes to employ has an international name and reputation, and that it is a member of a recognised body of accountants. The SEHK will consider the application having regard to the actual circumstances of each individual case.

The Securities and Futures Commission and the SEHK will, from time to time, review the existing listing arrangements in light of latest developments in the local and overseas markets, to ensure our market competitiveness and to protect investors.

(c) The SEHK continuously reviews, on a sample basis, the financial statements prepared by listed issuers. Where material and apparent irregularities are identified, the SEHK would refer the matter to the appropriate regulatory authorities.

In addition, under the Financial Reporting Council Ordinance (Cap 588), the Financial Reporting Council (FRC) may investigate auditing irregularities in relation to listed companies, such as professional negligence or misconduct, and enquire into non-compliances with accounting requirements in the financial statements of listed companies. Such investigations and enquiries may include companies listed in Hong Kong but incorporated elsewhere and non-Hong Kong registered auditors providing auditing service for those companies. If the case involves falsifying documents or making false or untrue material statements, the FRC will refer it to the Police.

If the FRC's enquiry findings show that there has been accounting non-compliance in the financial statements of the listed company concerned, the FRC will request the company to revise its financial statements. If the company refuses, the FRC may apply to the court to compel the company to make the necessary revisions.

In the event of FRC establishing that the auditor concerned has committed auditing irregularities, and that the auditor was registered outside Hong Kong, the FRC will notify the SEHK and the relevant overseas accounting regulatory bodies of the investigation outcome, so that they could decide on any follow-up action or sanctions to be taken against the auditor concerned.

Note: Include a person, firm or company.