

Press Release

LCQ7: Proposed new requirement on the undertaking of auditing services for mainland enterprises listed/to be listed in Hong Kong

Wednesday, June 25, 2014

Following is a question by the Hon Christopher Cheung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 25):

Question:

In April this year, the Ministry of Finance of the State Council released the consultation paper on "Temporary Implementing Rules on Cross-border Performance of Audit-related Services by Accounting Firms (Exposure Draft)". According to the interpretations made by newspapers, the Exposure Draft proposes to require that where an accounting firm outside Chinese territory is appointed to undertake auditing business for a mainland enterprise listed outside Chinese territory, it shall engage an accounting firm on the Mainland which is qualified to undertake securities-related business or ranked among the top 100 in the consolidated assessment of the sector in the preceding year for business collaboration, and that the auditing work on the Mainland shall be undertaken by mainland accountants, but the audit report shall be signed off as well as the relevant audit liabilities shall be borne by the accounting firm outside Chinese territory (the proposed requirement). In this connection, will the Government inform this Council:

(1) given that previously the "Mainland and Hong Kong Closer Economic Partnership Arrangement"(CEPA) stipulated that the validity period of the "Provisional Licence to Perform Audit-Related Services" to be applied for by Hong Kong accounting firms to conduct temporary auditing services on the Mainland was one year, and the validity period was subsequently extended to five years by a supplement of CEPA, whether the Government has assessed if the proposed requirement is in breach of CEPA; how it will follow up on the Exposure Draft, including whether it has raised any objection with the mainland authorities, or requested the mainland authorities to exempt Hong Kong accounting firms from complying with the proposed requirement; and

(2) whether it has assessed the risks faced by Hong Kong accounting firms in undertaking such auditing work upon the implementation of the proposed

requirement, as well as if there will be increased risks for Hong Kong people to invest in mainland enterprises listed in Hong Kong, hence undermining investors' confidence; whether it will take measures to prevent the rise of risks associated with misrepresentation of accounts by mainland enterprises listed in Hong Kong, so as to ensure that the status and reputation of the Hong Kong stock market will not be affected?

Reply:

President,

We understand the concerns expressed by various sectors over the Provisional Regulations on Certified Public Accountants practices carrying out Cross-border Audit Services (Provisional Regulations). The Financial Services and the Treasury Bureau has been discussing the matter with the Hong Kong Institute of Certified Public Accountants (HKICPA) and the relevant financial regulators, with a view to further assessing the implications of the Provisional Regulations on Hong Kong in respect of market regulation and our audit profession.

We have raised with the Ministry of Finance of China (MoF) the issues regarding the Provisional Regulations that require clarification and further deliberation, and have also relayed to them the concerns of our audit profession. Through MoF's regular meetings with relevant organisations in Hong Kong held recently, the Financial Services and the Treasury Bureau has conducted initial discussion with MoF on this matter. According to MoF, there have been irregularities when overseas accounting firms carried out cross-border audits in the Mainland and hence the objective of the Provisional Regulations is to strengthen the regulation of such activities, instead of seeking to make changes to the existing measures under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) that facilitate the Hong Kong audit profession.

We will actively follow up the matter and continue to maintain dialogue with MoF, HKICPA and the relevant financial regulators on the details of the Provisional Regulations in the coming months.

Ends