



Engagement and Consultation Paper on Further Reform of the Accounting Profession

9 March 2022

About the FRC

The Financial Reporting Council is an independent body established on 1 December 2006 under the Financial Reporting Council Ordinance. It is entrusted with the statutory duty to regulate auditors of listed entities through a system of registration and recognition, and through inspection, investigation and disciplinary action.

The mission of the FRC is to uphold the quality of financial reporting of listed entities in Hong Kong, so as to enhance protection for investors and deepen investor confidence in corporate reporting.

To learn more: please visit www.frc.org.hk or follow us on [LinkedIn](#).

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Foreword from the Chief Executive Officer

The Financial Reporting Council (Amendment) Ordinance 2021 (“**Amendment Ordinance 2021**”) brings in further reform of the regulatory regime for the accounting profession. It is expected to commence in the 4th quarter of this year, upon which the Financial Reporting Council (“**FRC**”) will become the independent regulator for the accounting profession and will thereafter be named the Accounting and Financial Reporting Council (“**AFRC**”). The AFRC will take on the following new functions:



- registration of practice units and public interest entity auditors;
- issuance of practising certificates to certified public accountants (“**CPAs**”);
- inspection of practice units;
- investigation of professional persons (i.e. CPAs and practice units); and
- discipline of professional persons.

These and a new function to promote and support the development of the accounting profession will complement the FRC’s existing functions relating to inspection, investigation and discipline of public interest entity auditors and enquiry into financial reporting non-compliance by listed entities. The scope of oversight by the AFRC of the performance of functions by the Hong Kong Institute of Certified Public Accountants will be extended to cover the qualification and registration of CPAs, the provision of training for CPA qualification and continuing development and the setting of all professional standards for CPAs.

The further reform aligns the Hong Kong regulatory regime with the international practice of independent regulation and oversight of the accountancy profession. It enhances regulatory efficiency and consistency while ensuring the sustainable development of the accountancy profession. These are all key elements for safeguarding Hong Kong’s position as a competitive and vibrant international financial centre.

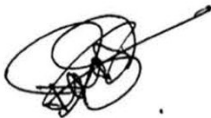
To ensure a seamless adoption of the above functions, we have devoted ourselves to the development of policies and processes for our new functions, which fall into two broad categories:

- *Documents for consultation* – These documents relate to the AFRC’s proposed disciplinary process and approach to sanctions. Given their potential impact, a public consultation is being conducted on these documents to help stakeholders understand the rationale of our proposals and solicit their views on how to

ensure our proposed policies meet the expectations of the public through an effective disciplinary regime.

- *Documents for engagement* – In light of the extensive changes made by the Amendment Ordinance 2021, the FRC has also prepared a series of documents to assist stakeholders to understand the operation of the new legal framework, as well as the AFRC’s approach to related matters. These documents are being published in the interest of transparency as part of the FRC’s ongoing engagement with stakeholders.

We hope that you will find this paper helpful and look forward to engaging with you and receiving your feedback on the consultation.



Mr Marek Grabowski
Chief Executive Officer

Definitions

In this document, the following terms have the meanings set out below and as defined in the Accounting and Financial Reporting Council Ordinance (“**AFRCO**”) as applicable:

Terms	Meanings	Section under the AFRCO
AFRC	AFRC means the Accounting and Financial Reporting Council continued under section 6 of the AFRCO.	2(1)
Amendment Ordinance 2021	Amendment Ordinance 2021 means the Financial Reporting Council (Amendment) Ordinance 2021.	/
CPA	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50) (“ PA Ordinance ” or “ PAO ”).	2(1)
FRC	FRC means the Financial Reporting Council.	/
HKICPA	HKICPA means the Hong Kong Institute of Certified Public Accountants incorporated by section 3 of the PA Ordinance.	2(1)
non-PIE auditor	A non-PIE auditor means a practice unit that undertakes or carries out a non-PIE engagement.	3A
practice unit	A practice unit means: <ul style="list-style-type: none"> • a certified public accountant (practising) who practises accountancy on the accountant’s own account under the accountant’s own name as registered under section 22(2) of the Professional Accountants Ordinance (Cap. 50); • a CPA firm; or • a corporate practice. 	2(1)

professional person	<p>A professional person means:</p> <ul style="list-style-type: none"> • a certified public accountant; or • a practice unit. 	2(1)
PIE	<p>A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.</p>	3(1)
PIE auditor	<p>A PIE auditor means a registered or recognized PIE auditor.</p>	3A
PIE engagement	<p>A PIE engagement means any of the following types of engagements for the preparation of:</p> <ul style="list-style-type: none"> • an auditor's report on a PIE's financial statements / annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules or any relevant code; • a specified report required to be included in a listing document for the listing of a corporation's shares or stocks or for the listing of a collective investment scheme; or • an accountant's report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition. 	3A(1); Part 1 of Schedule 1A
registered responsible person	<p>A registered responsible person means any of the following individuals whose name is recorded in the PIE auditors register as a responsible person of a registered PIE auditor:</p> <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)

Section 1: Consultation Paper on

- (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**
- (v) Sanctions Policy for Professional Persons**

9 March 2022

How to respond

Please send your written response by **4 May 2022** by one of the following means:

By mail to: Financial Reporting Council
24th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

By fax to: (852) 2810 6320

By email to: consultation@frc.org.hk

All submissions received before the expiry of the consultation period will be taken into account before the proposals are finalised.

Representative groups

Representative groups are asked to give a summary of the organisations or members they represent when they respond.

Confidentiality

Information provided in response to this consultation, including personal information, may be published or may be disclosed. In this connection, please read the Personal Information Collection Statement. If you want the information that you provide to be treated as confidential or you do not wish your response to be published, please make this clear in your response.

Acknowledgement of response

An acknowledgement will be sent to any individual or organisation submitting a response to this consultation.

Questions about this consultation

Any questions about the issues raised in this consultation paper should be directed to the Department of Discipline of the FRC at the above email address.

1.1 Introduction

1. On 22 October 2021, the Financial Reporting Council (Amendment) Ordinance 2021 (“**Amendment Ordinance 2021**”) was passed with a view to further enhance the independence of the regulatory regime for the accounting profession in Hong Kong.
2. The Financial Reporting Council Ordinance (Cap. 588) (“**FRCO**”), as amended by the Amendment Ordinance 2021, will be renamed as the Accounting and Financial Reporting Council Ordinance (“**AFRCO**”).
3. Upon the commencement of the Amendment Ordinance 2021:
 - 3.1 the Financial Reporting Council (“**FRC**”) will be renamed as the Accounting and Financial Reporting Council (“**AFRC**”); and
 - 3.2 the regulatory powers of the FRC will be expanded to cover professional persons in addition to its existing regulatory powers over public interest entity (“**PIE**”) auditors and registered responsible persons of registered PIE auditors.
4. With the introduction of the Amendment Ordinance 2021, the FRC aims to enhance the quality of the accounting profession and the standards of corporate reporting and audits for all entities, whether or not a PIE, in Hong Kong. As the business models of corporate entities become more complex and Hong Kong further strengthens its position as a trading and international financial centre, an effective regulatory regime of the accounting profession, including auditing, is crucial.
5. Against this background, the FRC has formulated new guidelines and other related documents for professional persons in preparation for the expansion of its regulatory powers.
6. Given the significant increase in the number of PIEs in Hong Kong (a significant proportion of which operate outside of Hong Kong), the FRC has also taken this opportunity to conduct a comprehensive review of the previously published disciplinary mechanism, including its approach to sanctions, in order to improve its effectiveness in delivering appropriate regulatory outcomes.
7. The proposals in this consultation are a result of these exercises.

8. In putting forward the proposals set out in this consultation paper, the FRC has carefully considered the requirements of the AFRCO, the practice and procedures adopted by other professional and financial regulators (both in Hong Kong and overseas), market developments and the local regulatory context.

1.2 Definitions

9. In this consultation paper, the following terms have the meanings defined in the AFRCO as set out below:

Terms	Meanings defined in the AFRCO	Section under the AFRCO
practice unit	<p>A practice unit means:</p> <ul style="list-style-type: none"> • a certified public accountant (practising) who practises accountancy on the accountant's own account under the accountant's own name as registered under section 22(2) of the Professional Accountants Ordinance (Cap. 50); • a CPA firm; or • a corporate practice. 	2(1)
professional person	<p>A professional person means:</p> <ul style="list-style-type: none"> • a certified public accountant; or • a practice unit. 	2(1)
PIE	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE engagement	<p>A PIE engagement means any of the following types of engagements for the preparation of:</p> <ul style="list-style-type: none"> • an auditor's report on a PIE's financial statements / annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules or any relevant code; 	3A(1); Part 1 of Schedule 1A

	<ul style="list-style-type: none"> • a specified report required to be included in a listing document for the listing of a corporation's shares or stocks or for the listing of a collective investment scheme; or • an accountant's report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition. 	
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A
registered responsible person	<p>A registered responsible person means any of the following individuals whose name is recorded in the PIE auditors register as a responsible person of a registered PIE auditor:</p> <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)

1.3 Proposals

10. The FRC’s proposals are contained in the proposed documents listed below (collectively, the “**Proposed Documents**”) and attached in **Appendix A**:

Document No.	Proposed Document
A	Outline of the AFRC’s Disciplinary Process
B	Guidelines for Exercising the Power to Impose a Pecuniary Penalty for PIE Auditors and Registered Responsible Persons
C	Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons
D	Sanctions Policy for PIE Auditors and Registered Responsible Persons
E	Sanctions Policy for Professional Persons

11. The FRC has also prepared the following additional documents (“**Additional Documents**”) in respect of disciplinary matters which are not subject to the current consultation. The Additional Documents are attached in **Appendix B** to assist stakeholders understand how the Proposed Documents fit in the AFRC’s proposed approach to disciplinary matters:

Document No.	Additional Document
F	Discipline Policy Statement for PIE Auditors and Registered Responsible Persons
G	Discipline Policy Statement for Professional Persons
H	Guidance Note on Cooperation with the AFRC

12. It is intended that the existing Disciplinary Policy Statement (“**Existing Policy Statement**”), FRC Guidelines for Exercising the Power to Impose a Pecuniary

Penalty dated September 2019 (“**Existing Fining Guidelines**”) and Sanctions Guidelines dated October 2019 (“**Existing Sanctions Guidelines**”) (collectively, the “**Existing Documents**”) will be superseded or replaced.

13. Please note that although the discussion below uses the terms “AFRC” and “AFRCO” for convenience, depending on the legislative timetable, it is possible that the documents applicable to PIE auditors and registered responsible persons will come into effect before the commencement of the Amendment Ordinance 2021. Further details will be provided upon the conclusion of this consultation exercise.

Aims and objectives

14. In preparing the Proposed and Additional Documents, the FRC aims to promote transparency by setting out the AFRC’s general approach to disciplinary matters. The documents are also intended to reflect the FRC’s principle of striving for effective regulatory outcomes through efficient process, with a view to reinforcing Hong Kong’s status as an international financial centre and facilitating the long-term development of the profession.
15. The FRC is further guided by the following:
 - 15.1 **Fairness and impartiality** – It is of paramount importance to the AFRC that all regulatees are treated fairly and impartially in its disciplinary process, including being afforded a reasonable opportunity to be heard before disciplinary decisions are made, and the Proposed and Additional Documents have been developed with this in mind.
 - 15.2 **Flexibility** – The AFRC aims to be transparent and consistent when performing its discipline function. However, in order to discharge its regulatory function effectively and to reach a fair and appropriate decision based on the specific circumstances of the case, it is also of importance that the AFRC retains sufficient flexibility and discretion to deal with individual circumstances and respond to new issues which arise. Therefore, the Proposed Documents are principle-based and explain the AFRC’s general approach to discipline only. More detailed information as to the approach that the AFRC may take in respect of specific disciplinary issues will be provided by way of decision notices, press releases and statements of disciplinary action issued in respect of future disciplinary cases. However, it should be recognized that the AFRC will always impose the sanctions which it considers appropriate on the facts and circumstances of the specific case before it and will not

be constrained by the sanctions imposed (or not imposed) in earlier cases.

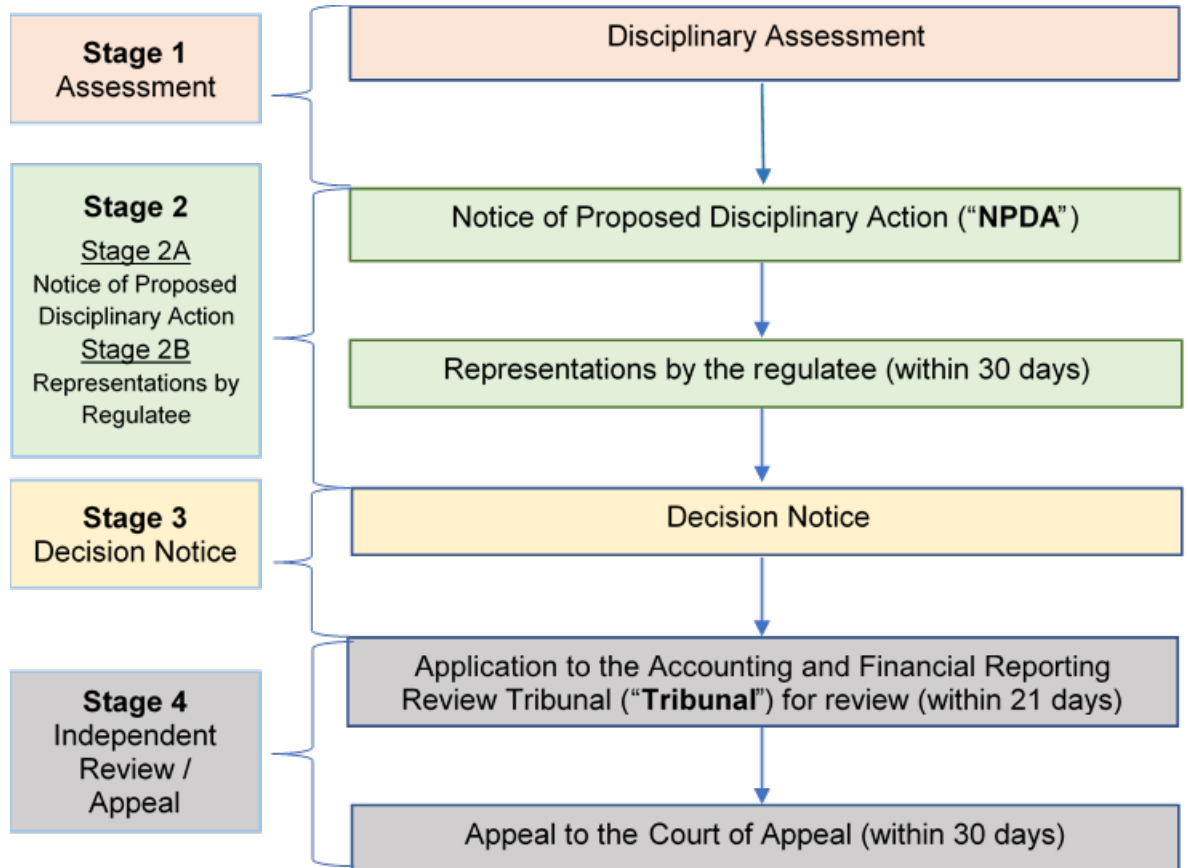
- 15.3 ***Simplicity, clarity and ease of reading*** – With a view to improving clarity and readability, the AFRC has reorganized the contents of the Existing Documents across the Proposed and Additional Documents. The AFRC has also simplified / streamlined the contents of the Existing Documents for easier application and removed duplicated materials.

Key features of the Proposed Documents

Outline of the AFRC's Disciplinary Process (Document A)

16. The proposed outline is intended to provide a brief overview of the AFRC's disciplinary process in respect of all regulatees, i.e. the process will be the same for both PIE auditors and registered responsible persons, and professional persons.
17. The legal framework for administering disciplinary matters under the AFRCO is different from that currently administered by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") under the Professional Accountants Ordinance (Cap. 50) ("**PAO**"). However, the legal framework under the AFRCO is very similar to those applicable to other independent regulators in Hong Kong, such as the Securities and Futures Commission. For this reason, the proposed process is largely in line with that adopted by such other independent regulators, which is well-tested in the courts, well-established and with which the market is familiar. By adopting a similar process used by other regulators, the AFRC can take advantage of their regulatory experience to ensure that all regulatees will be treated fairly and impartially.
18. The proposals also have the effect of streamlining the existing disciplinary mechanism contemplated under the Existing Policy Statement in order to facilitate the efficient resolution of disciplinary matters, which will be of benefit to both the AFRC and regulatees.

19. A high level summary of the proposed revised process is shown in the below diagram:



(i) Stage 1: Disciplinary assessment

20. When conducting an assessment of whether there is sufficient evidence to take disciplinary action, and during the course of the disciplinary action, the AFRC will generally rely on its own in-house expertise to deal with any legal issues and any auditing or accounting issues which may arise. This is in line with the well-established practice adopted by other major regulators in Hong Kong, and the safeguards set out in paragraph 32 below ensure that the rights of regulatees will be properly protected in the event that a regulatee is dissatisfied with the decision made by the AFRC.

21. Notwithstanding the above general approach, depending on the nature, complexity and importance of the issues involved, the AFRC may also choose to instruct an external legal adviser (who is a member of the AFRC's legal adviser panel) to advise it on particular issues or in respect of the whole case. Each case will depend on its own facts and the AFRC will have absolute discretion in determining whether, when and to what extent such external

adviser will be instructed. Therefore, the AFRC will not obtain external legal advice as a matter of course in every disciplinary case as that would be both inefficient and unnecessary in light of the AFRC's in-house expertise. Legal advice obtained by the AFRC is generally protected by legal professional privilege and will not be disclosed.

22. Similarly, the AFRC may also choose to instruct an external expert (who is a member of the AFRC's expert panel) to advise it on particular issues in an appropriate case depending on the nature, complexity and importance of the issues involved. Each case will depend on its own facts and the AFRC will have absolute discretion in determining whether, when and to what extent such external expert will be instructed. Therefore, the AFRC will not obtain external expert advice as a matter of course in every disciplinary case as that would be both inefficient and unnecessary in light of the AFRC's in-house expertise.
 23. It is anticipated that the circumstances in which external expert advice is required will likely arise only where the AFRC considers the correct interpretation of the standard on a point which is relevant and material to the action to be the subject of controversy within the profession. This is in line with the approach currently adopted by the Disciplinary Committee of the HKICPA¹ when considering whether to allow expert evidence to be adduced on auditing or accounting issues.
 24. Where the external expert advice is obtained by the AFRC for use as evidence in the disciplinary action, the evidence will be identified in the list of documents enclosed with the NPDA ("**List of Documents**") to be issued (see paragraph 25 below) and the expert opinion will be made available.
- (ii) Stage 2: NPDA and representations by the regulatee
25. If the AFRC decides to commence disciplinary action, an NPDA will be sent to the regulatee concerned. The NPDA will set out the allegations against the regulatee as well as the facts and evidence relevant to the allegations. The NPDA will also state the AFRC's preliminary views on the allegations and the proposed sanctions that the AFRC considers appropriate to impose on the basis of the information then available. A List of Documents relevant to the matters set out in the NPDA will be enclosed with the NPDA for the regulatee to obtain copies, if needed.

¹ See also *Hong Kong Institute of Certified Public Accountants v Disciplinary Committee and others* (unrep., HCAL 135/2005, 15 November 2005).

26. Further, to ensure the fairness of the disciplinary process and compliance with the AFRCO, the regulatee will be given an opportunity to be heard before any sanctions are imposed. Accordingly, if the regulatee does not agree with the allegations, facts, preliminary views or proposed sanctions set out in the NPDA, the regulatee should explain why by making representations in writing to the AFRC. In addition:
- 26.1 the regulatee should identify and produce evidence in support of the mitigating factors which the regulatee relies upon; and
 - 26.2 if the regulatee is of the view that any pecuniary penalty proposed has the effect of putting the regulatee in financial jeopardy, the regulatee should make this clear in the submission and provide evidence in support.
27. The AFRC may not take into account or attach any weight to any mitigating factor or any submission that the proposed pecuniary penalty has the effect of putting the regulatee in financial jeopardy if such factor or submission has not been so identified and substantiated by the regulatee in the representations to the AFRC.
28. The regulatee is entitled to seek legal advice at any point in the process, including obtaining the assistance of legal advisers to prepare written representations in response to the NPDA, if the regulatee considers it appropriate to do so.
29. Disciplinary actions are normally determined on the basis of written submissions. However, if in addition to written representations, the regulatee wishes to make oral representations, the regulatee may ask for a meeting with the AFRC. The regulatee must write to the AFRC explaining why the regulatee thinks a meeting is necessary. Such a meeting may be held if the AFRC considers fairness in the circumstances requires it. The regulatee may be accompanied by his or her or its legal advisers to the meeting but the AFRC will ordinarily expect the regulatee (rather than the legal adviser) to make oral representations to the AFRC.
- (iii) Stage 3: Decision notice
30. The AFRC will consider all available information, including the representations made by the regulatee, before making a decision. The AFRC will inform the regulatee of its decision (together with reasons) by way of a written decision notice.

(iv) Stage 4: Independent review / appeal

31. As a further safeguard to ensure that disciplinary decisions made by the AFRC are fair and reasonable, the disciplinary decisions of the AFRC are subject to review by the Tribunal, which is independent of the AFRC and chaired by a former Justice of Appeal, a former judge, a former recorder or a former deputy judge of the Court of First Instance, or a person who is eligible for appointment as a judge of the High Court. Any regulatee dissatisfied with a determination of the Tribunal may further appeal against that determination to the Court of Appeal with leave from the court.

(v) Overall fairness

32. In the view of the FRC, the proposed revised process will ensure the disciplinary process is transparent and fair, and the rights of regulatees are properly protected. This is achieved by:

32.1 the disclosure of the AFRC's analysis of all relevant issues in the NPDA, including the facts upon which the AFRC relies, the evidence in support of those facts and full details of the AFRC's interpretation and application of any relevant professional standards;

32.2 disclosing all relevant evidence in the possession of the AFRC in the List of Documents to be enclosed with the NPDA, including any independent expert opinion obtained by the AFRC for use as evidence in the proceedings, for regulatees to obtain copies if needed;

32.3 giving a reasonable opportunity for regulatees to make representations and present evidence in response to the NPDA; and

32.4 in the event that regulatees are dissatisfied with the disciplinary decision of the AFRC, the regulatees have the right to apply for a de novo review by the independent Tribunal. The regulatees may further appeal against the determination of the Tribunal to the Court of Appeal with leave from the court.

33. At the same time, the proposed process strikes a balance between the need for transparency and fairness, and the need to have an effective disciplinary process to facilitate the efficient resolution of disciplinary matters, which will be of benefit to both the AFRC and regulatees.

(vi) Comparison with the HKICPA's decision-making process

34. It is worth noting that, although the legal framework for administering disciplinary matters under the AFRCO is different from that under the PAO, under both ordinances a regulatee will be afforded an opportunity to have his or her or its case heard by an independent decision-maker (the Tribunal under the AFRCO and the Disciplinary Committee of the HKICPA under the PAO), with a further right to appeal to the Court of Appeal. A summary of the decision-making process for disciplinary matters under the AFRCO and the PAO is set out in the table below:

Levels	AFRCO	PAO
(i) Administrative decision by the regulator	The AFRC will make an administrative decision on a disciplinary matter in the first instance without a hearing.	Nil.
(ii) Decision by an independent decision-maker after a hearing	A regulatee dissatisfied with a decision of the AFRC may apply for a de novo review by the independent Tribunal. The Tribunal will make a decision after a hearing.	The Disciplinary Committee of the HKICPA, which comprises of members independent of the HKICPA, will make a decision on a disciplinary matter in the first instance after a hearing.
(iii) Appeal to the Court of Appeal	A party dissatisfied with a decision of the Tribunal may appeal to the Court of Appeal with leave.	A regulatee dissatisfied with a decision of the Disciplinary Committee of the HKICPA may appeal to the Court of Appeal.

35. In other words, the main difference between the decision-making process under the AFRCO and the PAO is the introduction of an additional level under the AFRCO whereby the AFRC will make an administrative decision on a disciplinary matter in the first instance without a hearing (i.e. level (i) above). This is intended to facilitate the efficient resolution of disciplinary matters, while at the same time preserving the regulatee's right to a full hearing before an

independent decision-maker and appeal to the Court of Appeal in an appropriate case.

Guidelines for Exercising the Power to Impose a Pecuniary Penalty for PIE Auditors and Registered Responsible Persons (Document B)

36. The AFRC has refined the Existing Fining Guidelines to be more focused, streamlined and reader-friendly.
37. The proposed guidelines for PIE auditors and registered responsible persons are intended to be published pursuant to sections 13 and 37H of the AFRCO to indicate the manner in which the AFRC will exercise its powers to impose a pecuniary penalty on a PIE auditor or a registered responsible person pursuant to sections 37D(3)(b)(iv) and 37E(3)(b)(iii) of the AFRCO. The AFRC is required to have regard to the guidelines in imposing any pecuniary penalty.
38. The key changes made in the proposed guidelines (in comparison with the Existing Fining Guidelines) are as follows:
 - 38.1 As explained in paragraph 15.2 above, to enable the AFRC to discharge its regulatory function effectively and to reach a fair and appropriate decision based on the specific circumstances of the case, it is important that the AFRC retains sufficient flexibility and discretion to deal with individual circumstances and respond to new issues which arise. This is particularly important in the context of PIE auditors and registered responsible persons, given the increasing number of PIEs in Hong Kong, the increasingly complex business environment in which PIE auditors and registered responsible persons operate and the variety of regulatory issues which may arise as a consequence. Accordingly, the FRC developed the proposed guidelines to be principle-based. Further guidance as to the application of those principles to specific factual scenarios will be provided by way of decision notices, press releases and statements of disciplinary action to be issued in respect of future disciplinary cases.
 - 38.2 The general approach to determining whether a pecuniary penalty is appropriate and, if so, the amount of pecuniary penalty to be ordered has been simplified. Under the simplified approach, the AFRC will consider the full circumstances of each case, including the seriousness of the misconduct involved and the circumstances of the regulatee concerned. This will generally involve the following 2-step approach:

- (i) the AFRC will first assess the misconduct including its nature, seriousness, frequency, duration and impact to form a view on the appropriateness of a pecuniary penalty; and
- (ii) the AFRC will then make any necessary adjustment to take account of any relevant aggravating and mitigating factors and to avoid the effect of putting the regulatee in financial jeopardy.

The above described 2-step approach is clear, straightforward and easy to apply, and will assist the AFRC in arriving at a fair and appropriate decision based on the specific circumstances of the case.

- 38.3 The principles that the AFRC may have regard to when determining sanctions generally (e.g. the objectives of discipline, the principle of proportionality etc.) are dealt with in the proposed Sanctions Policy for PIE Auditors and Registered Responsible Persons (i.e. Document D) and are not repeated in the proposed guidelines.
- 38.4 The Existing Fining Guidelines provide that the FRC should have regard to any arrangements which would result in the pecuniary penalty or part thereof being paid or indemnified by insurers or by a PIE auditor or employer, and that the existence of any such arrangements should not be a ground for increasing any pecuniary penalty beyond the level that would otherwise be considered appropriate. This statement has been removed as it is anticipated that the issue will rarely arise and because it is a specific aspect of the more general issue of whether the proposed pecuniary penalty would place the regulatee concerned in financial jeopardy, which is already addressed in the proposed guidelines.
- 38.5 To avoid repetition and to promote clarity and simplicity, the list of factors that the AFRC may take into consideration when assessing the misconduct have been reorganized and consolidated. For example, factors of similar nature are now grouped under sub-headings for easier reading.
- 38.6 Other duplicative contents have been removed.

Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons (Document C)

39. The proposed guidelines for professional persons are intended to be published pursuant to sections 13 and 37H of the AFRCO to indicate the manner in which

the AFRC will exercise its powers to impose a pecuniary penalty on a professional person pursuant to section 37CA(2)(b) of the AFRCO. The AFRC is required to have regard to the guidelines in imposing any pecuniary penalty.

40. The proposed guidelines for professional persons largely align with the proposed guidelines for PIE auditors and registered responsible persons (i.e. Document B) and adopt the same principle-based approach as described in paragraph 38.1 above. Further guidance as to the application of those principles to specific factual scenarios will be provided by way of decision notices, press releases and statements of disciplinary action to be issued in respect of future disciplinary cases. The principle-based approach enables the AFRC to respond quickly to new issues which arise, especially given the wide-ranging circumstances which may lead to the imposition of pecuniary penalties and the increasingly complex business environment in which professional persons operate.
41. The AFRC proposes to adopt the same principle-based approach for PIE auditors, registered responsible persons and professional persons given the need for flexibility, and the general principles and factors that the AFRC may take into account when considering a pecuniary penalty should be the same for all regulatees. However, the scope of circumstances in which sanctions may be imposed, and the sanction options available for PIE auditors and registered responsible persons on the one hand, and professional persons on the other, are different.
42. Accordingly, even though the general approach may be the same, there are inherent differences between the regulatory framework for PIE auditors and registered responsible persons on the one hand, and professional persons on the other, which may lead to differences in any pecuniary penalties that may be imposed. Among other things:
 - 42.1 considerations of public interest and the interest of the investing public may be more relevant to cases concerning PIE engagements, although each case will turn on its own facts; and
 - 42.2 the maximum pecuniary penalty that the AFRC may impose on PIE auditors and registered responsible persons for a misconduct is \$10,000,000 or 3 times the profit gained or loss avoided, whereas that on professional persons is \$500,000.

Sanctions Policy for PIE Auditors and Registered Responsible Persons (Document D)

43. The AFRC has refined the Existing Sanctions Guidelines to be more focused, streamlined and reader-friendly.
44. The proposed policy for PIE auditors and registered responsible persons sets out the AFRC's general approach to determining the sanctions to be imposed on PIE auditors and registered responsible persons pursuant to sections 37D, 37E and 37F of the AFRCO.
45. The key changes made in the proposed policy (in comparison with the Existing Sanctions Guidelines) are as follows:
 - 45.1 The name of the document has been changed from "Sanctions Guidelines" to "Sanctions Policy" to better reflect the nature of the document.
 - 45.2 As explained in paragraph 15.2 above, to enable the AFRC to discharge its regulatory function effectively and to reach a fair and appropriate decision based on the specific circumstances of the case, it is important that the AFRC retains sufficient flexibility and discretion to deal with individual circumstances and respond to new issues which arise. This is particularly important in the context of PIE auditors and registered responsible persons, given the increasing number of PIEs in Hong Kong, the increasingly complex business environment in which PIE auditors and registered responsible persons operate and the variety of regulatory issues which may arise as a consequence. Accordingly, the proposed policy is principle-based. Further guidance as to the application of those principles to specific factual scenarios will be provided by way of decision notices, press releases and statements of disciplinary action to be issued in respect of future disciplinary cases.
 - 45.3 The general approach to determining sanctions has been simplified. Under the simplified approach, the AFRC will consider the full circumstances of each case, including the seriousness of the conduct involved and the circumstances of the regulatee concerned. This will generally involve the following 2-step approach:
 - (i) the AFRC will first assess the conduct including its nature, seriousness, frequency, duration and impact to identify the sanction or combination of sanctions that the AFRC considers potentially appropriate; and

- (ii) the AFRC will then consider any relevant aggravating and mitigating circumstances and how those circumstances affect the level, nature or combination of sanctions under consideration.

In contrast with the previous more complicated 6-step approach set out in the Existing Sanctions Guidelines, the simplified approach is clear, straightforward and easy to apply, and will assist the AFRC in arriving at a fair and appropriate decision based on the specific circumstances of the case.

- 45.4 The general principles that the AFRC may have regard to when determining sanctions (which were previously set out in different parts of the Existing Sanctions Guidelines) have been grouped together and set out upfront for easier reading.
- 45.5 Unlike the Existing Sanctions Guidelines and in line with the principle-based approach, the proposed policy does not purport to set out the circumstances in which the AFRC may impose a particular sanction. Further, the FRC notes that some of the explanations provided in the Existing Sanctions Guidelines in respect of specific sanctions (for example that a public reprimand may be used in conjunction with other sanctions) apply equally to other types of sanction, and do not assist stakeholders understand when a particular sanction may be imposed.
- 45.6 Similarly, the discussion as to intent and recklessness in the Existing Sanctions Guidelines has been removed. Whether or not the regulatee concerned has acted intentionally or recklessly is a highly fact sensitive issue which needs to be assessed by the AFRC on a case-by-case basis, and it is difficult to capture all the circumstances which may arise.
- 45.7 To avoid repetition and to promote clarity and simplicity, the list of factors that the AFRC may take into consideration when assessing the relevant conduct and the list of mitigating / aggravating factors have been reorganized and consolidated. For example, one of the factors that the AFRC may take into consideration is whether relevant conduct was isolated or repeated. However, this factor appears three times in the Existing Sanctions Guidelines, which is unnecessarily duplicative. As with the Guidelines for Exercising the Power to Impose a Pecuniary Penalty for PIE Auditors and Registered Responsible Persons (i.e. Document B), factors of similar nature are also grouped under sub-headings for easier reading.

45.8 Other duplicative contents have been removed.

Sanctions Policy for Professional Persons (Document E)

46. The proposed policy for professional persons sets out the AFRC's general approach to determining the sanctions to be imposed on professional persons pursuant to section 37CA of the AFRCO.
47. The proposed policy for professional persons largely aligns with the proposed policy for PIE auditors and registered responsible persons (i.e. Document D) and adopts the same principle-based approach, as described in paragraph 45.2 above. Further guidance as to the application of those principles to specific factual scenarios will be provided by way of decision notices, press releases and statements of disciplinary action to be issued in respect of future disciplinary cases. The principle-based approach enables the AFRC to respond quickly to new issues which arise, especially given the wide-ranging circumstances which may lead to the imposition of disciplinary sanctions and the increasingly complex business environment in which professional persons operate.
48. The AFRC proposes to adopt the same principle-based approach for PIE auditors, registered responsible persons and professional persons given the need for flexibility, and the general principles and factors that the AFRC may take into account when considering sanctions should be the same for all regulatees. However, the scope of circumstances in which sanctions may be imposed and the sanction options available for PIE auditors and registered responsible persons on the one hand, and professional persons on the other, are different.
49. Accordingly, even though the general approach may be the same, there are inherent differences between the regulatory framework for PIE auditors and registered responsible persons on the one hand, and professional persons on the other, which may lead to differences in any sanctions that may be imposed. Among other things:
- 49.1 considerations of public interest and the interest of the investing public may be more relevant to cases concerning PIE engagements, although each case will turn on its own facts; and
 - 49.2 the sanctions which may be imposed by the AFRC on PIE auditors and registered responsible persons on the one hand, and professional persons on the other are different. For example:

- (i) while the AFRC has the power to order PIE auditors and registered responsible persons to carry out specified remedial action, there is no corresponding sanction available for professional persons; and
- (ii) the maximum pecuniary penalty that the AFRC may impose on PIE auditors and registered responsible persons for a misconduct is \$10,000,000 or 3 times the profit gained or loss avoided, whereas that on professional persons is \$500,000.

Overview of the Additional Documents

Discipline Policy Statement for PIE Auditors and Registered Responsible Persons (Document F)

Discipline Policy Statement for Professional Persons (Document G)

50. The two policy statements are intended to provide an overview of the legal framework of the disciplinary function of the AFRC for PIE auditors and registered responsible persons, and professional persons respectively.

Guidance Note on Cooperation with the AFRC (Document H)

51. The guidance note refines and further elaborates on the AFRC's approach to cooperation as currently set out in brief form in the Existing Sanctions Guidelines. The AFRC has prepared the guidance note by reference to the approach adopted by other regulators, both local and overseas. It is intended to apply to all regulatees and provide guidance on the AFRC's approach to cooperation in investigations and disciplinary actions with a view to improving transparency and incentivizing regulatees to cooperate with the AFRC.
52. As explained in the guidance note, the AFRC recognizes and values cooperation in its investigations and disciplinary actions as it assists the AFRC to achieve its regulatory objectives. Among other things, cooperation facilitates the early detection and prompt remediation of misconduct and fosters a culture of responsibility and self-improvement in regulatees. From the regulatees' perspective, providing early and full cooperation to the AFRC may result in a reduction in the level of sanctions imposed, and the timely conclusion of disciplinary matters will result in costs savings for all parties concerned.
53. The key features of the guidance note are as follows:
- 53.1 The guidance note sets out examples of cooperative and uncooperative conduct which the AFRC may take into account when determining the

appropriate sanctions to be imposed, and the factors which the AFRC will generally take into account to assess the degree of cooperation provided. Merely fulfilling statutory or regulatory obligations does not, in itself, constitute cooperation for the purpose of the guidance note.

- 53.2 The guidance note further explains the AFRC's approach to resolving concerns in relation to which the AFRC is contemplating whether to impose a disciplinary sanction by way of agreement pursuant to section 37I(1) or section 37I(1A) of the AFRCO. Among other things, the AFRC will consider the nature and degree of cooperation provided by regulatees and whether it is appropriate to do so in the interest of the investing public or in the public interest.
- 53.3 To encourage early cooperation and resolution of cases, the AFRC will also introduce a staged approach for recognizing cooperation, i.e. by dividing its disciplinary process into three stages and setting the maximum discount that the AFRC will generally consider depending on the stage in which the early resolution is reached. The staged approach is largely in line with the practice adopted by other regulators and the courts and would have the advantage of encouraging early cooperation and efficient resolution of cases.
- 53.4 The guidance note also sets out the approach that the AFRC will generally take to provide an appropriate level of disclosure regarding cooperation to enhance the transparency of the disciplinary process.
54. For the avoidance of doubt, the provisions in the guidance note are guiding principles only and the AFRC retains sole discretion in giving the appropriate discount in sanctions depending on the circumstances of the case.

1.4 Invitation to comment

55. The FRC is seeking your views and invites written comments on the Proposed Documents, including comments responding to the following questions:

Outline of the AFRC's Disciplinary Process (Document A)

Question 1: Do you think the proposed disciplinary process is transparent, fair and provides a reasonable opportunity to be heard to regulatees? Please explain with rationale any improvements that you would propose.

Question 2: Are there any improvements that should be made to the proposed disciplinary process to facilitate the AFRC's efficient and effective discharge of its disciplinary function? If so, please explain with rationale.

Guidelines for Exercising the Power to Impose a Pecuniary Penalty for PIE Auditors and Registered Responsible Persons (Document B)

Question 3: Do you agree that the proposed guidelines should be principle-based, and that further guidance as to the application of those principles to specific factual scenarios should be provided by way of decision notices, press releases and statements of disciplinary action to be issued in respect of future disciplinary cases? Please explain any improvements that you would propose and the reasons therefor.

Question 4: Do you have any comment on the list of factors (as set out in paragraphs 9 to 15 of the proposed guidelines) that the AFRC may take into consideration when determining a pecuniary penalty, including those relating to cooperation (or non-cooperation) with the AFRC? Are there any other factors that you believe the AFRC should include in the list? Please explain with rationale.

Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons (Document C)

- Question 5:** Do you agree that the proposed guidelines should be principle-based, and that further guidance as to the application of those principles to specific factual scenarios should be provided by way of decision notices, press releases and statements of disciplinary action to be issued in respect of future disciplinary cases? Please explain any improvements that you would propose and the reasons therefor.
- Question 6:** Do you have any comment on the list of factors (as set out in paragraphs 8 to 14 of the proposed guidelines) that the AFRC may take into consideration when determining a pecuniary penalty, including those relating to cooperation (or non-cooperation) with the AFRC? Are there any other factors that you believe the AFRC should include in the list? Please explain with rationale.

Sanctions Policy for PIE Auditors and Registered Responsible Persons (Document D)

- Question 7:** Do you agree that the proposed policy should be principle-based, and that further guidance as to the application of those principles to specific factual scenarios should be provided by way of decision notices, press releases and statements of disciplinary action to be issued in respect of future disciplinary cases? Please explain any improvements that you would propose and the reasons therefor.
- Question 8:** Do you have any comment on the list of factors (as set out in paragraphs 7 to 10 of the proposed policy) that the AFRC may take into consideration when determining sanctions, including those relating to cooperation (or non-cooperation) with the AFRC? Are there any other factors that you believe the AFRC should include in the lists? Please explain with rationale.

Sanctions Policy for Professional Persons (Document E)

- Question 9:** Do you agree that the proposed policy should be principle-based, and that further guidance as to the application of those principles to specific factual scenarios should be provided by way of decision notices, press releases and statements of disciplinary action to be issued in respect of future disciplinary cases? Please explain any improvements that you would propose and the reasons therefor.

Question 10: Do you have any comment on the list of factors (as set out in paragraphs 7 to 10 of the proposed policy) that the AFRC may take into consideration when determining sanctions, including those relating to cooperation (or non-cooperation) with the AFRC? Are there any other factors that you believe the AFRC should include in the lists? Please explain with rationale.

Others

Question 11: Do you have any other comments on the Proposed Documents that would help the AFRC to discharge its statutory regulatory obligations? If so, please elaborate with rationale.

56. Comments are most helpful if they:
- 56.1 address the above questions;
 - 56.2 indicate the Proposed Document(s) and the specific paragraph(s) of the Proposed Document(s) to which they relate;
 - 56.3 contain a clear rationale; and
 - 56.4 include any alternative the FRC should consider, if applicable.
57. Please note that the FRC wishes to obtain feedback on all of the Proposed Documents in order to ensure the suitability of the new framework as a whole. Whether or not the FRC undertakes a consultation in respect of any changes which may be made to the Proposed Documents in the future will depend on the nature and significance of those changes, and the FRC's policy at that time.

Appendix A

Draft for Consultation Purpose

Document 1A – Outline of the AFRC’s Disciplinary Process

Introduction

1. Under Part 3B of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”), the Accounting and Financial Reporting Council (“**AFRC**”) is given the power to discipline:
 - (a) public interest entity (“**PIE**”) auditors registered or recognized under Part 3 of the AFRCO;
 - (b) registered responsible persons of registered PIE auditors; and
 - (c) professional persons
 (together referred to as “**Regulatees**”).
2. This document is intended to provide a brief overview of the AFRC’s disciplinary process, which has been designed to ensure that all Regulatees are treated fairly and impartially.
3. The disciplinary process outlined in this document is applicable to all Regulatees. However, the scope of sanctionable conduct, the disciplinary grounds and the sanction options available for (i) PIE auditors and registered responsible persons of registered PIE auditors; and (ii) professional persons, are different, and the AFRC has issued separate Policy Statements, Guidelines for Exercising the Power to Impose a Pecuniary Penalty and Sanctions Policies for them.

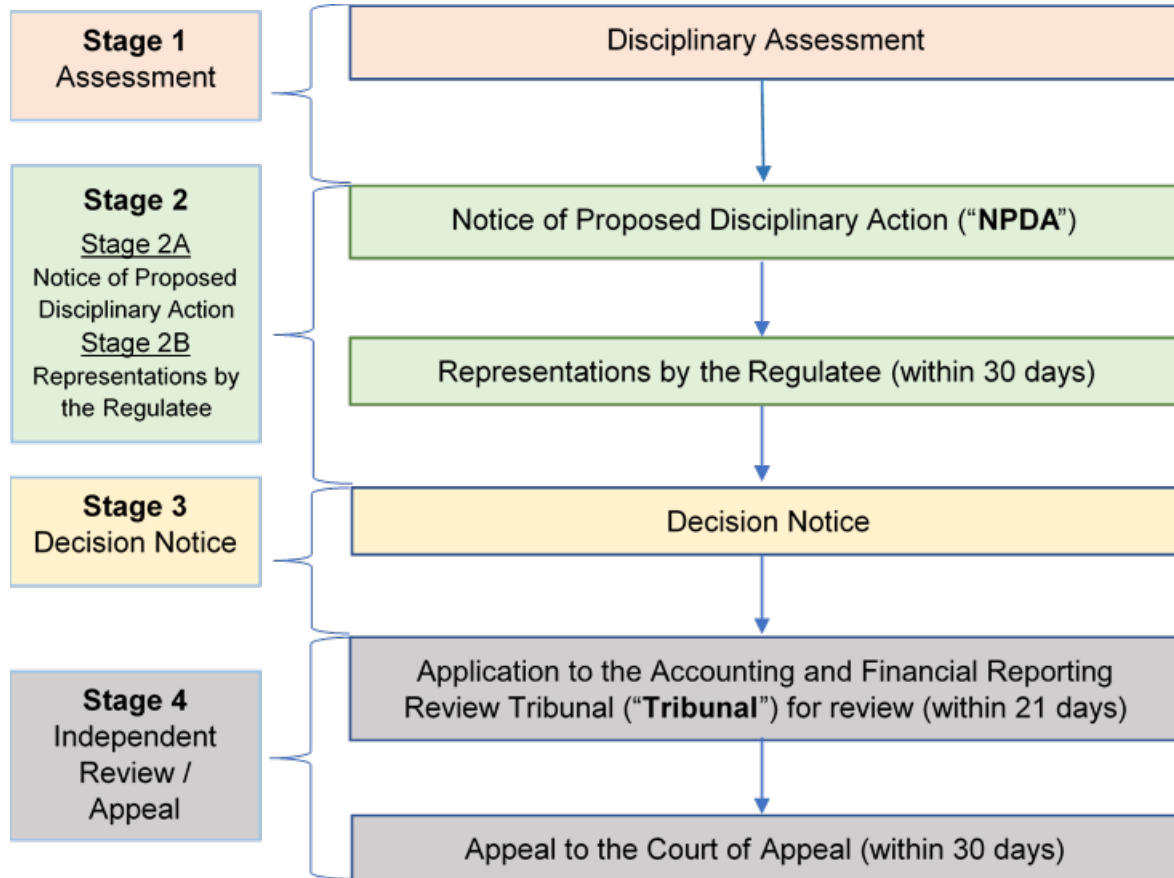
Definitions

4. In this document, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
practice unit	A practice unit means: <ul style="list-style-type: none"> • a certified public accountant (practising) who practises accountancy on the accountant’s own account under the accountant’s own 	2(1)

	<p>name as registered under section 22(2) of the Professional Accountants Ordinance (Cap. 50);</p> <ul style="list-style-type: none"> • a CPA firm; or • a corporate practice. 	
professional person	<p>A professional person means:</p> <ul style="list-style-type: none"> • a certified public accountant; or • a practice unit. 	2(1)
PIE	<p>A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.</p>	3(1)
PIE auditor	<p>A PIE auditor means a registered or recognized PIE auditor.</p>	3A
registered responsible person	<p>A registered responsible person means any of the following individuals whose name is recorded in the PIE auditors register as a responsible person of a registered PIE auditor:</p> <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)

Disciplinary process



Stage 1

Disciplinary assessment

5. Cases may be referred to the Department of Discipline by the Department of Investigation and Compliance for consideration of taking disciplinary actions.
6. The Department of Discipline will then assess whether there is sufficient evidence to take disciplinary actions.
7. Depending on the nature, complexity and importance of the issues involved, the AFRC may choose to instruct an external legal adviser to advise it on particular issues or in respect of the whole case. Each case will depend on its own facts and the AFRC will have absolute discretion in determining whether, when and to what extent such external adviser will be instructed. Legal advice obtained by the AFRC is generally protected by legal professional privilege and will not be disclosed.

8. Similarly, the AFRC may also choose to instruct an external auditing or accounting expert to advise it on particular issues in an appropriate case depending on the nature, complexity and importance of the issues involved. Each case will depend on its own facts and the AFRC will have absolute discretion in determining whether, when and to what extent such external expert will be instructed. It is anticipated that the circumstances in which external expert advice is required will likely arise only where the AFRC considers the correct interpretation of the standard on a point which is relevant and material to the action to be the subject of controversy within the profession.
9. Where the external expert advice is obtained by the AFRC for use as evidence in the disciplinary action, the evidence will be identified in the List of Documents to be issued (see paragraph 11 below) and the expert opinion will be made available.

Stage 2A

NPDA

10. If the AFRC decides to commence disciplinary action, an NPDA will be sent to the Regulatee concerned. The NPDA sets out the allegations against the Regulatee as well as the facts and evidence relevant to the allegations. The NPDA also states the AFRC's preliminary views on the allegations and the proposed sanctions that the AFRC considers appropriate to impose on the basis of the information then available.
11. A list of documents relevant to the matters set out in the NPDA will be enclosed with the NPDA ("**List of Documents**") for the Regulatee to obtain copies, if needed.

Stage 2B

(i) Representations by the Regulatee

12. Before imposing any sanctions, the AFRC must give the Regulatee a reasonable opportunity to be heard by allowing the Regulatee to make representations explaining the matter and commenting on the appropriateness of the proposed sanctions. The Regulatee will be informed of this right in the NPDA.

13. If the Regulatee does not agree with the allegations, facts, preliminary views or proposed sanctions set out in the NPDA, the Regulatee should explain why by making representations in writing to the AFRC. In addition:
 - (a) the Regulatee should identify and produce evidence in support of the mitigating factors which the Regulatee relies upon; and
 - (b) if the Regulatee is of the view that any pecuniary penalty proposed has the effect of putting the Regulatee in financial jeopardy, the Regulatee should make this clear in the submission and provide evidence in support.
14. The AFRC may not take into account or attach any weight to any mitigating factor or any submission that the proposed pecuniary penalty has the effect of putting the Regulatee in financial jeopardy if such factor or submission has not been so identified and substantiated by the Regulatee in the representations to the AFRC.
15. Before making representations, the Regulatee may ask for copies of the documents on the List of Documents from the AFRC.
16. Under normal circumstances, the Regulatee will be given 30 days to make representations. The AFRC may consider any reasonable request for extension of time.
17. If the Regulatee does not make any representation before the deadline stated in the NPDA (or the extended deadline, if extension of time has been granted), the AFRC will proceed to issue a Decision Notice based on the evidence before it.
 - (ii) *Legal representation*
18. The Regulatee may seek legal advice at any point in the process, including obtaining the assistance of legal advisers to prepare written representations in response to the NPDA.
 - (iii) *Meeting with the AFRC*
19. Disciplinary actions are normally determined on the basis of written submissions. However, if in addition to written representations, the Regulatee wishes to make oral representations, the Regulatee may ask for a meeting with the AFRC. The Regulatee must write to the AFRC explaining why the Regulatee thinks a meeting is necessary. Such a meeting may be held if the AFRC considers fairness in the circumstances requires it.

20. However, irrespective of whether the Regulatee requests it, the AFRC may invite the Regulatee to attend a meeting to clarify certain issues if the AFRC considers fairness in the circumstances requires it.

21. For the avoidance of doubt, while the Regulatee may be accompanied by his or her or its legal adviser to the meeting, the AFRC will ordinarily expect the Regulatee (rather than the legal adviser) to make oral representations to the AFRC.

Stage 3

Decision Notice

22. The AFRC will consider all available information, including the representations made by the Regulatee, and then make a decision. The AFRC will inform the Regulatee of its decision by way of a written Decision Notice, which sets out:

- (a) a statement of the reasons for the decision;
- (b) the time when the decision is to take effect; and
- (c) the details of the sanction imposed.

23. The Decision Notice will also include information on the Regulatee's right to apply for a review of the AFRC's decision by the Tribunal.

Stage 4

(i) Application to the Tribunal for review

24. The Regulatee, if aggrieved by a disciplinary decision of the AFRC, may apply to the Tribunal for a review of the decision. Such application must be made in writing within 21 days after the AFRC has issued the Decision Notice to the Regulatee. This period may be extended by applying to the Tribunal and demonstrating a good cause.

25. The application for review must state the grounds for the application.

(ii) Effective date of a decision

26. If the Regulatee does not apply to the Tribunal for a review of the AFRC's decision within 21 days (or such period as extended by the Tribunal), the decision will take effect on the day after the period expires.
27. If, before such period expires, the Regulatee notifies the AFRC in writing that the Regulatee will not make a review application, the AFRC's decision will take effect on the day after the AFRC is so notified.
28. If the Regulatee applies for a review within 21 days (or such period as extended by the Tribunal), the AFRC's decision will not take effect until the Tribunal makes a final determination or the Regulatee withdraws the review application.
29. Notwithstanding the above, if the AFRC considers it appropriate in the public interest to do so, it may specify any other day on which its decision is to take effect.

(iii) Appeal to the Court of Appeal

30. If a party to a review is dissatisfied with a determination of the Tribunal, an appeal can be made to the Court of Appeal on a question of law and/or fact. The party concerned must first apply to the Court of Appeal for leave to appeal within 30 days after the Tribunal has issued the determination to the party.
31. Leave to appeal may only be granted if the Court of Appeal is satisfied that the appeal has a reasonable prospect of success or there are some other reasons in the interests of justice that the appeal should be heard.
32. Any party to an appeal may apply to the Court of Appeal for a stay of execution of the determination of the Tribunal.

Taking action in place of or in addition to imposing sanctions with consent

33. The AFRC has power to take disciplinary actions by consent if the AFRC considers it appropriate to do so in the interest of the investing public or in the public interest.
34. The Regulatee may make a resolution proposal to the AFRC at any time before the issuance of a Decision Notice. Whether the AFRC will agree to enter into resolution negotiations depends on the facts and circumstances of each case.

Unless otherwise agreed, all discussion about resolution proposals will be treated as “without prejudice”, meaning that neither the AFRC nor the Regulatee may refer to those discussions in the disciplinary actions or subsequent legal proceedings. For more information, please refer to the [“Guidance Note on Cooperation with the AFRC”](#), which is available on the AFRC’s website (www.afrc.org.hk).

Cooperation with the AFRC

35. Regulatees are expected to cooperate with the AFRC in all its regulatory processes. In deciding the sanctions to be imposed, the AFRC will consider whether the Regulatee has cooperated with the AFRC in its investigations and disciplinary process. In appropriate circumstances, the sanctions may be reduced depending on, among other things, the timeliness, nature and degree of the cooperation. For more information, please refer to the [“Guidance Note on Cooperation with the AFRC”](#), which is available on the AFRC’s website (www.afrc.org.hk).

Paying a pecuniary penalty

36. If the Regulatee is ordered to pay a pecuniary penalty, the penalty must be paid to the AFRC by the deadline specified in the Decision Notice, by cheque made payable to the “Accounting and Financial Reporting Council” and delivered to:

Accounting and Financial Reporting Council
24th Floor, Hopewell Centre
183 Queen’s Road East
Hong Kong

37. Please quote the AFRC’s case reference which is quoted on the AFRC’s correspondence relating to the matter.

Disclaimer

38. This document provides a summary of the AFRC’s disciplinary process for reference only. It is not legal advice. Regulatees should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Draft for Consultation Purpose

Document 1B – Guidelines for Exercising the Power to Impose a Pecuniary Penalty for PIE Auditors and Registered Responsible Persons

Introduction

1. These guidelines are made pursuant to sections 13 and 37H of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”) to indicate the manner in which the Accounting and Financial Reporting Council (“**AFRC**”) will exercise its powers to impose a pecuniary penalty on a public interest entity (“**PIE**”) auditor or a registered responsible person of a registered PIE auditor (together referred to as “**Regulatees**”) pursuant to sections 37D(3)(b)(iv) and 37E(3)(b)(iii) of the AFRCO respectively. Section 37H(1)(b) requires the AFRC to have regard to these guidelines in imposing any pecuniary penalty.
2. Unless otherwise stated, terms defined in the AFRCO shall have the same meanings in these guidelines.
3. These guidelines will be reviewed periodically and (where appropriate) revised in the light of experience. These guidelines cannot deal with every single situation and exceptions will sometimes arise.

Power to order pecuniary penalties for misconduct

4. Pursuant to section 37D(3)(b)(iv) of the AFRCO, if the AFRC is satisfied that a person who is or was a PIE auditor has committed a misconduct, the AFRC may order that person to pay a pecuniary penalty not exceeding the amount which is the greater of—
 - (a) \$10,000,000; or
 - (b) 3 times the amount of the profit gained or loss avoided by the person as a result of the misconduct.
5. Pursuant to section 37E(3)(b)(iii) of the AFRCO, if the AFRC is satisfied that a person who is or was a registered responsible person of a registered PIE auditor has committed a misconduct, the AFRC may order that person to pay a pecuniary penalty not exceeding the amount which is the greater of—
 - (a) \$10,000,000; or
 - (b) 3 times the amount of the profit gained or loss avoided by the person as a result of the misconduct.

General approach to determining a pecuniary penalty

6. In determining whether a pecuniary penalty is appropriate and, if so, the amount of pecuniary penalty to be ordered, the AFRC will consider the full circumstances of each case, including the seriousness of the misconduct involved and the circumstances of the Regulatee concerned. The AFRC will also have regard to the upper limit on the pecuniary penalty that can be imposed in respect of each misconduct.
7. Without prejudice to the matters stated in paragraph 6 above, in undertaking the assessment of whether to impose a pecuniary penalty and the appropriate amount of pecuniary penalty, the AFRC will generally adopt the following approach:
 - (a) the AFRC will first assess the misconduct including its nature, seriousness, frequency, duration and impact to form a view on the appropriateness of a pecuniary penalty as set out in paragraphs 9 and 10 below; and
 - (b) the AFRC will then make any necessary adjustment to take account of any relevant aggravating and mitigating factors and to avoid the effect of putting a Regulatee in financial jeopardy as set out in paragraphs 11 to 15 below.
8. Where a case potentially gives rise to multiple pecuniary penalties, the AFRC will look at the totality of the pecuniary penalties to ensure that they are not disproportionate to the seriousness of the misconduct in question for each of the Regulatees.

Step (a): Assessing the misconduct

9. In assessing the misconduct, the AFRC may consider the factors summarized in the next paragraph. This list is not exhaustive and not all factors will be applicable in a particular case. The AFRC may also consider any other factors, not listed, that are relevant. Having identified the factors that it regards as relevant, the AFRC will decide the relative weight to ascribe to each relevant factor.
10. Factors which the AFRC may consider include:

The nature and seriousness of the misconduct

- (a) the nature, extent and importance of any laws, standards or regulations breached;
- (b) whether the misconduct was intentional, dishonest, deliberate, reckless or negligent, or involved a failure to act or conduct business with integrity or an abuse of a position of trust;
- (c) whether the misconduct was engaged in by the Regulatee alone or as a group, and if so the Regulatee's role in that group, including whether the Regulatee caused or encouraged other individuals to commit misconduct;
- (d) whether the Regulatee facilitated wrongdoing by a third party or collusion with a client;
- (e) in the case of a PIE auditor, the effectiveness of its relevant procedures, systems or internal controls and/or its implementation of any relevant Hong Kong Standard on Quality Control (or equivalent);

The frequency and duration of the misconduct

- (f) whether the misconduct was isolated, or repeated or ongoing;
- (g) if repeated or ongoing, the duration of the misconduct;

The impact of the misconduct

- (h) whether the misconduct damaged, or (if known) could have damaged, the public interest and the interest of the investing public;
- (i) whether the misconduct damaged, or (if known) could have damaged, investor, market and public confidence in the truth and fairness of the financial statements of PIEs;
- (j) whether the misconduct undermined, or (if known) could have undermined, public confidence in the standards of conduct in general of Regulatees and the reputation of Hong Kong as an international financial centre;

- (k) whether the misconduct adversely affected, or (if known) could have adversely affected, a significant number of people (such as the investing public), including the loss of significant sums of money; and
- (l) the financial benefit derived or intended to be derived from the misconduct (the amount of profits gained or intended to be gained or losses avoided or intended to be avoided by the Regulatee, in so far as they can be determined). If the Regulatee has derived any illegitimate financial benefits or has illegitimately avoided any losses, the AFRC will generally take steps to ensure that no illegitimate gain is retained. The AFRC may also allocate an amount in respect of interest on the benefit obtained or loss avoided.

Step (b): Making necessary adjustment

11. Having assessed the circumstances of the misconduct and reached a view on the appropriateness of a pecuniary penalty, the AFRC will then consider whether any adjustments need to be made to take account of any relevant aggravating and mitigating factors (to the extent those factors have not already been taken into account in the AFRC's assessment of the misconduct) and to avoid the effect of putting a Regulatee in financial jeopardy.

Aggravating and mitigating factors

12. The list below is not exhaustive and not all factors will be applicable in a particular case. The AFRC will also consider any other factors, not listed, that are relevant. Having identified the factors that it regards as relevant, the AFRC will decide the relative weight to ascribe to each relevant factor.
13. Factors which the AFRC may consider include:
 - (a) the degree of cooperation (or non-cooperation) with the AFRC, including whether remedial actions have been taken – please refer to the [“Guidance Note on Cooperation with the AFRC”](#) which is available on the AFRC's website (www.afrc.org.hk) for more information;
 - (b) whether similar previous misconduct by the Regulatee or issues similar or related to the misconduct have been identified, and whether appropriate steps had been taken to address any such similar misconduct or issues;

- (c) whether the Regulatee has failed to comply with any previous direction or order relevant to the misconduct;
- (d) the likelihood that the same type of misconduct will recur;
- (e) the Regulatee's compliance history and disciplinary record;
- (f) in the case of an individual, the individual's experience in the profession and position within the PIE auditor; and
- (g) in the case of an individual, personal mitigating circumstances.

Financial jeopardy

14. A pecuniary penalty should not have the effect of putting the Regulatee concerned in financial jeopardy. Where a Regulatee submits that a pecuniary penalty may put it, him or her in such a position and provides relevant information in support of such submission, the AFRC will consider the following:
 - (a) in the case of a PIE auditor, the AFRC will have regard to the PIE auditor's size, financial resources and financial strength, as indicated by, for example, the total turnover of the PIE auditor and the effect of the pecuniary penalty on its practice; and
 - (b) in the case of an individual, the AFRC will have regard to the individual's financial resources (including his or her annual income and assets) and the effect of the pecuniary penalty on that individual.
15. However, if a Regulatee takes or has taken deliberate steps to create the false appearance that the pecuniary penalty will place it, him or her in financial jeopardy, e.g. by transferring assets to third parties, this will be taken into account.

Disclaimer

16. The provisions in these guidelines are guiding principles only. They do not in any way limit the discretion of the AFRC to evaluate each case on its own facts and circumstances.
17. For the avoidance of doubt, these guidelines do not purport to set out an exhaustive list of the principles and factors that the AFRC may take into account

when imposing pecuniary penalties, and not all of the matters referred to above will be applicable in a particular case.

18. These guidelines do not constitute legal advice. You should seek professional advice if you have any question relating to the application or interpretation of the relevant provisions of the AFRCO.
19. The AFRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this guidelines or arising from any omission from it.
20. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Draft for Consultation Purpose

Document 1C – Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons

Introduction

1. These guidelines are made pursuant to sections 13 and 37H of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”) to indicate the manner in which the Accounting and Financial Reporting Council (“**AFRC**”) will exercise its powers to impose a pecuniary penalty on professional persons (i.e. certified public accountants and practice units) (“**Regulatees**”) pursuant to section 37CA of the AFRCO. Section 37H(1)(b) requires the AFRC to have regard to these guidelines in imposing any pecuniary penalty.
2. Unless otherwise stated, terms defined in the AFRCO shall have the same meanings in these guidelines.
3. These guidelines will be reviewed periodically and (where appropriate) revised in the light of experience. These guidelines cannot deal with every single situation and exceptions will sometimes arise.

Power to order pecuniary penalties for CPA misconduct

4. Pursuant to section 37CA(2)(b) of the AFRCO, if the AFRC is satisfied that a person who is or was a Regulatee has committed a CPA misconduct, the AFRC may order that person to pay a pecuniary penalty not exceeding \$500,000.

General approach to determining a pecuniary penalty

5. In determining whether a pecuniary penalty is appropriate and, if so, the amount of pecuniary penalty to be ordered, the AFRC will consider the full circumstances of each case, including the seriousness of the CPA misconduct involved and the circumstances of the Regulatee concerned. The AFRC will also have regard to the upper limit on the pecuniary penalty that can be imposed in respect of each CPA misconduct.
6. Without prejudice to the matters stated in paragraph 5 above, in undertaking the assessment of whether to impose a pecuniary penalty and the appropriate amount of pecuniary penalty, the AFRC will generally adopt the following approach:
 - (a) the AFRC will first assess the CPA misconduct including its nature, seriousness, frequency, duration and impact to form a view on the appropriateness of a pecuniary penalty as set out in paragraphs 8 and 9 below; and

- (b) the AFRC will then make any necessary adjustment to take account of any relevant aggravating and mitigating factors and to avoid the effect of putting a Regulatee in financial jeopardy as set out in paragraphs 10 to 14 below.
7. Where a case potentially gives rise to multiple pecuniary penalties, the AFRC will look at the totality of the pecuniary penalties to ensure that they are not disproportionate to the seriousness of the CPA misconduct in question for each of the Regulatees.

Step (a): Assessing the CPA misconduct

8. In assessing the CPA misconduct, the AFRC may consider the factors summarized in the next paragraph. This list is not exhaustive and not all factors will be applicable in a particular case. The AFRC may also consider any other factors, not listed, that are relevant. Having identified the factors that it regards as relevant, the AFRC will decide the relative weight to ascribe to each relevant factor.
9. Factors which the AFRC may consider include:

The nature and seriousness of the CPA misconduct

- (a) the nature, extent and importance of any laws, standards or regulations breached;
- (b) whether the CPA misconduct was intentional, dishonest, deliberate, reckless or negligent, or involved a failure to act or conduct business with integrity or an abuse of a position of trust;
- (c) whether the CPA misconduct was engaged in by the Regulatee alone or as a group, and if so the Regulatee's role in that group, including whether the Regulatee caused or encouraged other individuals to commit CPA misconduct;
- (d) whether the Regulatee facilitated wrongdoing by a third party or collusion with a client;

- (e) in the case of a practice unit, the effectiveness of its relevant procedures, systems or internal controls and/or its implementation of any relevant Hong Kong Standard on Quality Control (or equivalent);

The frequency and duration of the CPA misconduct

- (f) whether the CPA misconduct was isolated, or repeated or ongoing;
- (g) if repeated or ongoing, the duration of the CPA misconduct;

The impact of the CPA misconduct

- (h) whether the CPA conduct damaged, or (if known) could have damaged, the public interest and the interest of the investing public;
- (i) whether the CPA misconduct damaged, or (if known) could have damaged, public confidence in the quality of corporate reporting and financial statements;
- (j) whether the CPA misconduct undermined, or (if known) could have undermined, public confidence in the standards of conduct in general of Regulatees and the reputation of Hong Kong as an international financial centre;
- (k) whether the CPA misconduct adversely affected, or (if known) could have adversely affected, a significant number of people (such as the investing public), including the loss of significant sums of money; and
- (l) the financial benefit derived or intended to be derived from the CPA misconduct (the amount of profits gained or intended to be gained or losses avoided or intended to be avoided by the Regulatee, in so far as they can be determined). If the Regulatee has derived any illegitimate financial benefits or has illegitimately avoided any losses, the AFRC will generally take steps to ensure that no illegitimate gain is retained. The AFRC may also allocate an amount in respect of interest on the benefit obtained or loss avoided.

Step (b): Making necessary adjustment

10. Having assessed the circumstances of the CPA misconduct and reached a view on the appropriateness of a pecuniary penalty, the AFRC will then consider

whether any adjustments need to be made to take account of any relevant aggravating and mitigating factors (to the extent those factors have not already been taken into account in the AFRC's assessment of the CPA misconduct) and to avoid the effect of putting a Regulatee in financial jeopardy.

Aggravating and mitigating factors

11. The list below is not exhaustive and not all factors will be applicable in a particular case. The AFRC will also consider any other factors, not listed, that are relevant. Having identified the factors that it regards as relevant, the AFRC will decide the relative weight to ascribe to each relevant factor.
12. Factors which the AFRC may consider include:
 - (a) the degree of cooperation (or non-cooperation) with the AFRC, including whether remedial actions have been taken – please refer to the [“Guidance Note on Cooperation with the AFRC”](#) which is available on the AFRC's website (www.afrc.org.hk) for more information;
 - (b) whether similar previous CPA misconduct by the Regulatee or issues similar or related to the CPA misconduct have been identified, and whether appropriate steps had been taken to address any such similar CPA misconduct or issues;
 - (c) whether the Regulatee has failed to comply with any previous direction or order relevant to the CPA misconduct;
 - (d) the likelihood that the same type of CPA misconduct will recur;
 - (e) the Regulatee's compliance history and disciplinary record;
 - (f) in the case of an individual, the individual's experience in the profession and position within the practice unit; and
 - (g) in the case of an individual, personal mitigating circumstances.

Financial jeopardy

13. A pecuniary penalty should not have the effect of putting the Regulatee concerned in financial jeopardy. Where a Regulatee submits that a pecuniary

penalty may put it, him or her in such a position and provides relevant information in support of such submission, the AFRC will consider the following:

- (a) in the case of a practice unit, the AFRC will have regard to the practice unit's size, financial resources and financial strength, as indicated by, for example, the total turnover of the practice unit and the effect of the pecuniary penalty on its practice; and
 - (b) in the case of an individual, the AFRC will have regard to the individual's financial resources (including his or her annual income and assets) and the effect of the pecuniary penalty on that individual.
14. However, if a Regulatee takes or has taken deliberate steps to create the false appearance that the pecuniary penalty will place it, him or her in financial jeopardy, e.g. by transferring assets to third parties, this will be taken into account.

Disclaimer

15. The provisions in these guidelines are guiding principles only. They do not in any way limit the discretion of the AFRC to evaluate each case on its own facts and circumstances.
16. For the avoidance of doubt, these guidelines do not purport to set out an exhaustive list of the principles and factors that the AFRC may take into account when imposing pecuniary penalties, and not all of the matters referred to above will be applicable in a particular case.
17. These guidelines do not constitute legal advice. You should seek professional advice if you have any question relating to the application or interpretation of the relevant provisions of the AFRCO.
18. The AFRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this guidelines or arising from any omission from it.
19. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Draft for Consultation Purpose

Document 1D – Sanctions Policy for PIE Auditors and Registered Responsible Persons

Introduction

1. This policy sets out the general approach that the Accounting and Financial Reporting Council (“**AFRC**”) will adopt when considering the imposition of sanctions on public interest entity (“**PIE**”) auditors and registered responsible persons of a registered PIE auditor (together referred to as “**Regulatees**”) pursuant to sections 37D, 37E and 37F of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”). For the types of sanctions that the AFRC could impose on Regulatees under the AFRCO, please refer to the [“Discipline Policy Statement for PIE Auditors and Registered Responsible Persons”](#), which is available on the AFRC’s website (www.afrc.org.hk).
2. Unless otherwise stated, terms defined in the AFRCO shall have the same meanings in this policy.
3. This policy will be reviewed periodically and (where appropriate) revised in the light of experience. This policy cannot deal with every single situation and exceptions will sometimes arise.

General approach to determining sanctions

4. The AFRC will consider the full circumstances of each case, including the seriousness of the conduct involved and the circumstances of the Regulatee concerned, before determining which sanction or combination of sanctions to impose on the Regulatee.
5. Generally speaking:
 - (a) the AFRC will consider the objectives of discipline in the context of the AFRCO. The primary purpose of imposing sanctions is not to punish, but to protect the public and the wider public interest and for deterrence;
 - (b) the AFRC will aim to impose sanctions which are proportionate. In assessing proportionality, the AFRC will consider whether the particular sanctions are commensurate with the circumstances of the case, including the seriousness of the conduct and the circumstances of the Regulatee concerned;
 - (c) where a case potentially gives rise to multiple sanctions, the AFRC will look at the totality of the sanctions to ensure that they are not disproportionate to the seriousness of the conduct in question for each of the Regulatees;

and

- (d) the AFRC may have regard to sanctions (including the amount of any pecuniary penalty) imposed in other cases. It will, however, impose the sanctions which it considers appropriate on the facts and circumstances of the specific case before it and will not be constrained by the sanctions imposed (or not imposed) in earlier cases. The AFRC may also adjust its approach from time to time in light of various considerations it deems relevant to the discharge of its functions and to changing market circumstances, particularly the behaviour of Regulatees.
6. Without prejudice to the matters stated in paragraphs 4 and 5 above, the AFRC will generally adopt the following approach to determining the sanction to be imposed in a particular case:
- (a) the AFRC will first assess the relevant conduct including its nature, seriousness, frequency, duration and impact to identify the sanction or combination of sanctions that the AFRC considers potentially appropriate (paragraphs 7 and 8 below); and
 - (b) the AFRC will then consider any relevant aggravating or mitigating circumstances and how those circumstances affect the level, nature or combination of sanctions under consideration (paragraphs 9 and 10 below).

Step (a): Undertaking the initial assessment of the conduct

7. In assessing the conduct, the AFRC may consider the factors summarized in the next paragraph. This list is not exhaustive and not all factors will be applicable in a particular case. The AFRC may also consider any other factors, not listed, that are relevant. Having identified the factors that it regards as relevant, the AFRC will decide the relative weight to ascribe to each relevant factor.
8. Factors which the AFRC may consider include:

The nature and seriousness of the conduct

- (a) the nature, extent and importance of any laws, standards or regulations breached;
- (b) whether the conduct was intentional, dishonest, deliberate, reckless or

negligent, or involved a failure to act or conduct business with integrity or an abuse of a position of trust;

- (c) whether the conduct was engaged in by the Regulatee alone or as a group, and if so the Regulatee's role in that group, including whether the Regulatee caused or encouraged other individuals to commit the relevant conduct;
- (d) whether the Regulatee facilitated wrongdoing by a third party or collusion with a client;
- (e) in the case of a PIE auditor, the effectiveness of its relevant procedures, systems or internal controls and/or its implementation of any relevant Hong Kong Standard on Quality Control (or equivalent);

The frequency and duration of the conduct

- (f) whether the conduct was isolated, or repeated or ongoing;
- (g) if repeated or ongoing, the duration of the conduct;

The impact of the conduct

- (h) whether the conduct damaged, or (if known) could have damaged, the public interest and the interest of the investing public;
- (i) whether the conduct damaged, or (if known) could have damaged, investor, market and public confidence in the truth and fairness of the financial statements of PIEs;
- (j) whether the conduct undermined, or (if known) could have undermined, public confidence in the standards of conduct in general of Regulatees and the reputation of Hong Kong as an international financial centre;
- (k) whether the conduct adversely affected, or (if known) could have adversely affected, a significant number of people (such as the investing public), including the loss of significant sums of money; and
- (l) the financial benefit derived or intended to be derived from the conduct (the amount of profits gained or intended to be gained or losses avoided or intended to be avoided by the Regulatee, in so far as they can be determined). If the Regulatee has derived any illegitimate financial benefits

or has illegitimately avoided any losses, the AFRC will generally take steps to ensure that no illegitimate gain is retained. The AFRC may also allocate an amount in respect of interest on the benefit obtained or loss avoided.

Step (b): Considering any relevant aggravating or mitigating circumstances

9. Having assessed the circumstances of the conduct and reached a view on the potential sanction that would be appropriate, the AFRC will then consider whether to adjust that sanction to reflect any aggravating or mitigating factors (summarized in the paragraph below) that may exist (to the extent those factors have not already been taken into account in the AFRC's assessment of the conduct). The list below is not exhaustive and not all factors will be applicable in a particular case. The AFRC will also consider any other factors, not listed, that are relevant. Having identified the factors that it regards as relevant, the AFRC will decide the relative weight to ascribe to each relevant factor.
10. Factors which the AFRC may consider include:
 - (a) the degree of cooperation (or non-cooperation) with the AFRC, including whether remedial actions have been taken – please refer to the [“Guidance Note on Cooperation with the AFRC”](#) which is available on the AFRC's website (www.afrc.org.hk) for more information;
 - (b) whether similar previous conduct by the Regulatee or issues similar or related to the conduct have been identified, and whether appropriate steps had been taken to address any such similar conduct or issues;
 - (c) whether the Regulatee has failed to comply with any previous direction or order relevant to the conduct;
 - (d) the likelihood that the same type of conduct will recur;
 - (e) the Regulatee's compliance history and disciplinary record;
 - (f) in the case of an individual, the individual's experience in the profession and position within the PIE auditor; and
 - (g) in the case of an individual, personal mitigating circumstances.

Disclaimer

11. The provisions in this policy are guiding principles only. They do not in any way limit the discretion of the AFRC to evaluate each case on its own facts and circumstances.
12. For the avoidance of doubt, this policy does not purport to set out an exhaustive list of the principles and factors that the AFRC may take into account when determining sanctions, and not all of the matters referred to above will be applicable in a particular case.
13. This policy does not constitute legal advice. You should seek professional advice if you have any question relating to the application or interpretation of the relevant provisions of the AFRCO.
14. The AFRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this policy or arising from any omission from it.
15. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Draft for Consultation Purpose

Document 1E – Sanctions Policy for Professional Persons

Introduction

1. This policy sets out the general approach that the Accounting and Financial Reporting Council (“**AFRC**”) will adopt when considering the imposition of sanctions on professional persons (i.e. certified public accountants and practice units) (“**Regulatees**”) pursuant to section 37CA of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”). For the types of sanctions that the AFRC could impose on Regulatees under the AFRCO, please refer to the [*“Discipline Policy Statement for Professional Persons”*](#), which is available on the AFRC’s website (www.afrc.org.hk).
2. Unless otherwise stated, terms defined in the AFRCO shall have the same meanings in this policy.
3. This policy will be reviewed periodically and (where appropriate) revised in the light of experience. This policy cannot deal with every single situation and exceptions will sometimes arise.

General approach to determining sanctions

4. The AFRC will consider the full circumstances of each case, including the seriousness of the conduct involved and the circumstances of the Regulatee concerned, before determining which sanction or combination of sanctions to impose on the Regulatee.
5. Generally speaking:
 - (a) the AFRC will consider the objectives of discipline in the context of the AFRCO. The primary purpose of imposing sanctions is not to punish, but to protect the public and the wider public interest and for deterrence;
 - (b) the AFRC will aim to impose sanctions which are proportionate. In assessing proportionality, the AFRC will consider whether the particular sanctions are commensurate with the circumstances of the case, including the seriousness of the conduct and the circumstances of the Regulatee concerned;
 - (c) where a case potentially gives rise to multiple sanctions, the AFRC will look at the totality of the sanctions to ensure that they are not disproportionate to the seriousness of the conduct in question for each of the Regulatees; and

- (d) the AFRC may have regard to sanctions (including the amount of any pecuniary penalty) imposed in other cases. It will, however, impose the sanctions which it considers appropriate on the facts and circumstances of the specific case before it and will not be constrained by the sanctions imposed (or not imposed) in earlier cases. The AFRC may also adjust its approach from time to time in light of various considerations it deems relevant to the discharge of its functions and to changing market circumstances, particularly the behaviour of Regulatees.
6. Without prejudice to the matters stated in paragraphs 4 and 5 above, the AFRC will generally adopt the following approach to determining the sanction to be imposed in a particular case:
- (a) the AFRC will first assess the relevant conduct including its nature, seriousness, frequency, duration and impact to identify the sanction or combination of sanctions that the AFRC considers potentially appropriate (paragraphs 7 and 8 below); and
 - (b) the AFRC will then consider any relevant aggravating or mitigating circumstances and how those circumstances affect the level, nature or combination of sanctions under consideration (paragraphs 9 and 10 below).

Step (a): Undertaking the initial assessment of the conduct

7. In assessing the conduct, the AFRC may consider the factors summarized in the next paragraph. This list is not exhaustive and not all factors will be applicable in a particular case. The AFRC may also consider any other factors, not listed, that are relevant. Having identified the factors that it regards as relevant, the AFRC will decide the relative weight to ascribe to each relevant factor.
8. Factors which the AFRC may consider include:

The nature and seriousness of the conduct

- (a) the nature, extent and importance of any laws, standards or regulations breached;
- (b) whether the conduct was intentional, dishonest, deliberate, reckless or negligent, or involved a failure to act or conduct business with integrity or an abuse of a position of trust;

- (c) whether the conduct was engaged in by the Regulatee alone or as a group, and if so the Regulatee's role in that group, including whether the Regulatee caused or encouraged other individuals to commit the relevant conduct;
- (d) whether the Regulatee facilitated wrongdoing by a third party or collusion with a client;
- (e) in the case of a practice unit, the effectiveness of its relevant procedures, systems or internal controls and/or its implementation of any relevant Hong Kong Standard on Quality Control (or equivalent);

The frequency and duration of the conduct

- (f) whether the conduct was isolated, or repeated or ongoing;
- (g) if repeated or ongoing, the duration of the conduct;

The impact of the conduct

- (h) whether the conduct damaged, or (if known) could have damaged, the public interest and the interest of the investing public;
- (i) whether the conduct damaged, or (if known) could have damaged, public confidence in the quality of corporate reporting and financial statements;
- (j) whether the conduct undermined, or (if known) could have undermined, public confidence in the standards of conduct in general of Regulatees and the reputation of Hong Kong as an international financial centre;
- (k) whether the conduct adversely affected, or (if known) could have adversely affected, a significant number of people (such as the investing public), including the loss of significant sums of money; and
- (l) the financial benefit derived or intended to be derived from the conduct (the amount of profits gained or intended to be gained or losses avoided or intended to be avoided by the Regulatee, in so far as they can be determined). If the Regulatee has derived any illegitimate financial benefits or has illegitimately avoided any losses, the AFRC will generally take steps to ensure that no illegitimate gain is retained. The AFRC may also allocate

an amount in respect of interest on the benefit obtained or loss avoided.

Step (b): Considering any relevant aggravating or mitigating circumstances

9. Having assessed the circumstances of the conduct and reached a view on the potential sanction that would be appropriate, the AFRC will then consider whether to adjust that sanction to reflect any aggravating or mitigating factors (summarized in the paragraph below) that may exist (to the extent those factors have not already been taken into account in the AFRC's assessment of the conduct). The list below is not exhaustive and not all factors will be applicable in a particular case. The AFRC will also consider any other factors, not listed, that are relevant. Having identified the factors that it regards as relevant, the AFRC will decide the relative weight to ascribe to each relevant factor.
10. Factors which the AFRC may consider include:
 - (a) the degree of cooperation (or non-cooperation) with the AFRC, including whether remedial actions have been taken – please refer to the [“Guidance Note on Cooperation with the AFRC”](#) which is available on the AFRC's website (www.afrc.org.hk) for more information;
 - (b) whether similar previous conduct by the Regulatee or issues similar or related to the conduct have been identified, and whether appropriate steps had been taken to address any such similar conduct or issues;
 - (c) whether the Regulatee has failed to comply with any previous direction or order relevant to the conduct;
 - (d) the likelihood that the same type of conduct will recur;
 - (e) the Regulatee's compliance history and disciplinary record;
 - (f) in the case of an individual, the individual's experience in the profession and position within the practice unit; and
 - (g) in the case of an individual, personal mitigating circumstances.

Disclaimer

11. The provisions in this policy are guiding principles only. They do not in any way limit the discretion of the AFRC to evaluate each case on its own facts and

circumstances.

12. For the avoidance of doubt, this policy does not purport to set out an exhaustive list of the principles and factors that the AFRC may take into account when determining sanctions, and not all of the matters referred to above will be applicable in a particular case.
13. This policy does not constitute legal advice. You should seek professional advice if you have any question relating to the application or interpretation of the relevant provisions of the AFRCO.
14. The AFRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this policy or arising from any omission from it.
15. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Appendix B

Document 1F – Discipline Policy Statement for PIE Auditors and Registered Responsible Persons

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. Under the AFRCO, the AFRC is empowered to impose sanctions on the following persons where they have committed a misconduct and under certain specified situations:
 - (a) public interest entity (“**PIE**”) auditors, being:
 - (i) registered PIE auditors;
 - (ii) recognized PIE auditors; and
 - (b) registered responsible persons of a registered PIE auditor
 (together referred to as “**Regulatees**”).

Definitions

3. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
PIE	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE engagement	A PIE engagement means any of the following types of engagements for the preparation of: <ul style="list-style-type: none"> • an auditor’s report on a PIE’s financial statements / annual accounts required by section 379 of the Companies Ordinance 	3A(1); Part 1 of Schedule 1A

	<p>(Cap. 622), the Listing Rules or any relevant code;</p> <ul style="list-style-type: none"> • a specified report required to be included in a listing document for the listing of a corporation's shares or stocks or for the listing of a collective investment scheme; or • an accountant's report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition. 	
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A(1)
professional standard	<p>A professional standard means:</p> <ul style="list-style-type: none"> • any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been issued or specified, under section 18A of the Professional Accountants Ordinance (Cap. 50); • any standard on professional ethics, or accounting, auditing or assurance practices, issued or specified by the International Accounting Standards Board, the International Auditing and Assurance Standards Board or the International Ethics Standards Board for Accountants; • any standard on professional ethics, or accounting, auditing or assurance practices, comparable to those referred to above which is allowed by the Securities and Futures Commission pursuant to the relevant code or by the Hong Kong Exchanges and Clearing Limited pursuant to the Listing Rules; or • any standard on professional ethics, or accounting, auditing or assurance practices, specified in the Listing Rules. 	2(1)

recognized PIE auditor	A recognized PIE auditor means an overseas auditor recognized under Division 3 of Part 3, including a Mainland auditor recognized under section 20ZT of the AFRCO.	3A(1)
registered PIE auditor	A registered PIE auditor means a practice unit registered under Division 2 of Part 3 of the AFRCO.	3A(1)
registered responsible person	A registered responsible person means any of the following individuals whose name is recorded in the PIE auditors register as a responsible person of a registered PIE auditor: <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)

Purpose of this document

4. The purpose of this Policy Statement is to provide an overview of the legal regime of the disciplinary function of the AFRC for Regulatees.
5. For details of the AFRC's disciplinary process, please refer to the [“*Outline of the AFRC's Disciplinary Process*”](#), which is available on the AFRC's website (www.afrc.org.hk).

Objectives of discipline

6. The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accountancy profession is crucial for the business community and is essential for maintaining Hong Kong's status as an international financial centre.
7. The AFRC regulates through imposing disciplinary sanctions on Regulatees. It ensures that where there has been misconduct committed by Regulatees, or upon the occurrence of certain specified events (as further elaborated in paragraph 11 below), appropriate and timely action will be taken:

- (a) to uphold proper standards of conduct amongst Regulatees so as to maintain and enhance the quality and reliability of future audits;
- (b) to maintain and promote public confidence in:
 - (i) the integrity of the accountancy profession;
 - (ii) the quality of their audits; and
 - (iii) the regulation of the accountancy profession;
- (c) to protect the public from Regulatees whose conduct has failed to comply with the relevant requirements set out in the AFRCO; and
- (d) to deter Regulatees from committing misconduct relating to PIE audits.

Circumstances in which disciplinary sanctions may be imposed

Misconduct

8. Pursuant to sections 37D and 37E of the AFRCO, disciplinary action may be taken against a Regulatee who has committed a misconduct. As provided in sections 37A and 37B of the AFRCO, misconduct in this context includes:
- (a) a contravention of a provision of the AFRCO; Sections 37D and 37E of the AFRCO
 - (b) a contravention of a condition imposed in relation to the registration or recognition of the PIE auditor concerned; Sections 37A and 37B of the AFRCO
 - (c) a contravention of a requirement imposed on a Regulatee under the AFRCO;
 - (d) conduct in relation to a PIE engagement which is or is likely to be prejudicial to the interest of the investing public or the public interest; or
 - (e) a “practice irregularity” as defined under section 4 of the AFRCO (see paragraph 9 below).
9. Examples of a “practice irregularity” include situations where a Regulatee, in relation to a PIE engagement: Section 4 of the AFRCO

- (a) falsified or caused to be falsified a document;
 - (b) made a statement, in respect of a document, that was material and that the Regulatee knew to be false or did not believe to be true;
 - (c) has been negligent in the conduct of the Regulatee’s profession;
 - (d) has been guilty of professional misconduct;
 - (e) did or omitted to do something that would reasonably be regarded as bringing or likely to bring discredit on the Regulatee, the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) or the accountancy profession;
 - (f) failed or neglected to observe, maintain or otherwise apply a professional standard; or
 - (g) refused or neglected to comply with any direction lawfully given by the AFRC, or the provisions of any bylaw or rule made, or any direction lawfully given by the Council of the HKICPA.
10. The above examples are not exhaustive. Please refer to section 4 of the AFRCO for a full list of matters that constitute a “practice irregularity”.

Other situations where the AFRC may impose sanctions

11. Section 37F of the AFRCO sets out a number of additional situations in which the AFRC may impose sanctions on registered PIE auditors and registered responsible persons. These generally relate to insolvency events, the conviction of an offence that impugns the fitness and properness of the relevant persons and mental incapacity. Section 37F
of the
AFRCO

Opportunity to be heard

12. The AFRC must not impose a sanction on a Regulatee without first giving the Regulatee a reasonable opportunity of being heard, i.e. an opportunity to make written or oral representations. Section 37G
of the
AFRCO
13. Please refer to the [“Outline of the AFRC’s Disciplinary Process”](#), which is available on the AFRC’s website (www.afrc.org.hk) for details in relation to the opportunity to make representations.

Sanctions

Sanctions for misconduct

14. The AFRC may impose the following sanctions for misconduct on a PIE auditor: [Section 37D of the AFRCO](#)
- (a) public or private reprimand;
 - (b) remedial action;
 - (c) pecuniary penalty;
 - (d) imposition of a condition on the registration or recognition;
 - (e) revocation or suspension of the registration or recognition; and
 - (f) prohibition from applying to be registered or recognized as a PIE auditor for a period of time.
15. The AFRC may impose the following sanctions for misconduct on a registered responsible person: [Section 37E of the AFRCO](#)
- (a) public or private reprimand;
 - (b) remedial action;
 - (c) pecuniary penalty; and
 - (d) removal of name from the list of registered responsible persons permanently or for a period of time.
16. The above sanctions may be imposed singly or in combination.

Other situations where the AFRC may impose sanctions

17. In the situations described in paragraph 11 above, the AFRC may: [Section 37F of the AFRCO](#)
- (a) revoke or suspend the registration of a registered PIE auditor; and

- (b) remove the name of a registered responsible person from the list of registered responsible persons permanently or for a period of time.

Approach to determining pecuniary penalty and other sanctions

18. The AFRC will consider all the relevant circumstances of a case to determine the appropriate sanction or combination of sanctions which would achieve the purpose of disciplinary action with due regard to the principle of proportionality.
19. Before imposing a pecuniary penalty, the AFRC is required to have regard to the [“Guidelines for Exercising the Power to Impose a Pecuniary Penalty for PIE Auditors and Registered Responsible Persons”](#), which is available on the AFRC’s website (www.afrc.org.hk). Section 37H of the AFRCO
20. For further information as to the AFRC’s approach to sanctions generally, please refer to the [“Sanctions Policy for PIE Auditors and Registered Responsible Persons”](#), which is also available on the AFRC’s website (www.afrc.org.hk).

Review of the AFRC’s disciplinary decisions

21. Any Regulatee who is aggrieved by the AFRC’s disciplinary decision may, within 21 days beginning on the day after a notice of the decision is issued by the AFRC, apply to the Accounting and Financial Reporting Review Tribunal (“**Tribunal**”) for a review of that decision. Sections 37M and 37Q of the AFRCO
22. The Tribunal is independent of the AFRC. The Tribunal consists of a chairperson (a former Justice of Appeal of the Court of Appeal, a former judge / recorder / deputy judge of the Court of First Instance or a person eligible for appointment as a judge of the High Court) and two other ordinary members from the Tribunal panel, all of whom must not be public officers. Sections 2, 3, and 5 of Schedule 4A of the AFRCO
23. The chairperson and members of the Tribunal panel must be appointed by the Chief Executive of the HKSAR. Sections 2 and 3 of Schedule 4A of the AFRCO

Appeal

24. If a party to a review is dissatisfied with the determination of the review made by the Tribunal, the party may, within 30 days after the day on which the determination is issued to the party, apply to the Court of Appeal for leave to appeal against that determination on a question of law and/or fact. Sections 37ZF and 37ZG of the AFRCO

Disclosure of sanctions

25. The AFRC must disclose to the public the material facts of the case, the AFRC's decision with reasons and the disciplinary sanction imposed / action taken, unless the disclosure:
- Section 37K
of the
AFRCO
- (a) relates to a private reprimand;
 - (b) may adversely affect any criminal proceedings before a court or magistrate; or
 - (c) in the AFRC's opinion, is not in the interest of the investing public or in the public interest.
26. The disclosure may only be made after:
- Section 37K
of the
AFRCO
- (a) where a sanction is imposed upon the conclusion of the disciplinary process –
 - (i) the expiry of the period for lodging an application for review to the Tribunal; or
 - (ii) if an application for review is lodged, the disposal of the review; or
 - (b) where a settlement is reached and disciplinary action is taken by consent pursuant to section 37I of the AFRCO – a notice pursuant to section 37I(4) of the AFRCO is issued.
27. In general, disclosure will be made by means of a press release, which will be made available on the AFRC's website (www.afrc.org.hk).

Disclaimer

28. This document provides a summary for reference only. It is not legal advice. Regulatees should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 1G – Discipline Policy Statement for Professional Persons

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. Under the AFRCO, the AFRC is empowered to impose sanctions on professional persons (“**Regulatees**”) where they have committed a CPA misconduct.

Definitions

3. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
AML / CTF requirement	An AML / CTF requirement means a requirement set out in Part 2, 3 or 4 of Schedule 2 to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) as may be applicable.	3B(5)
certified public accountant (“ CPA ”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50) (“ PA Ordinance ”).	2(1)
CPA misconduct	A CPA misconduct means a misconduct as defined in section 37AA of the AFRCO, as further elaborated under the sub-section “CPA misconduct” below.	37AA
PAO professional standard	A PAO professional standard means any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been issued or specified, under section 18A of the PA Ordinance.	2(1)

public interest entity (“PIE”)	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A
practice unit	A practice unit means: <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under the accountant's own name as registered under section 22(2) of the PA Ordinance; • a CPA firm; or • a corporate practice. 	2(1)
professional person	A professional person means: <ul style="list-style-type: none"> • a CPA; or • a practice unit. 	2(1)
registered responsible person	A registered responsible person means any of the following individuals whose name is recorded in the PIE auditors register as a responsible person of a registered PIE auditor: <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)

Purpose of this document

4. The purpose of this Policy Statement is to provide an overview of the legal regime of the disciplinary function of the AFRC for Regulatees.
5. For details of the AFRC’s disciplinary process, please refer to the [“Outline of the AFRC’s Disciplinary Process”](#), which is available on the AFRC’s website (www.afrc.org.hk).

Objectives of discipline

6. The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accountancy profession is crucial for the business community and is essential for maintaining Hong Kong's status as an international financial centre.
7. The AFRC regulates through imposing disciplinary sanctions on Regulatees. It ensures that where there has been CPA misconduct committed by Regulatees, appropriate and timely action will be taken:
 - (a) to uphold proper standards of conduct amongst Regulatees so as to maintain and enhance the quality and reliability of accounting and auditing work;
 - (b) to maintain and promote public confidence in:
 - (i) the integrity of the accountancy profession;
 - (ii) the quality of corporate reporting; and
 - (iii) the regulation of the accountancy profession;
 - (c) to protect the public from Regulatees whose conduct has failed to comply with the relevant requirements set out in the AFRCO; and
 - (d) to deter Regulatees from committing CPA misconduct.

Circumstances in which disciplinary sanctions may be imposed

CPA misconduct

8. Pursuant to section 37CA of the AFRCO, disciplinary action may be taken against a Regulatee who has been guilty of a CPA misconduct. As provided in section 37AA of the AFRCO, CPA misconduct in this context includes situations where the Regulatee:
 - (a) does an act or makes an omission that amounts to a “professional irregularity” as defined under section 3B of the AFRCO (see paragraph 11 below);

Section 37CA
of the
AFRCO

Section 37AA
of the
AFRCO

- (b) is convicted of an offence under section 21F or 31 of the AFRCO, which generally relates to a failure to properly comply with a requirement imposed by an inspector or investigator;
 - (c) is punished by the Court of First Instance under section 32(2)(b) or 45(2)(b) of the AFRCO for failing to comply with a requirement imposed by an inspector, investigator or enquirer or for being involved in the failure;
 - (d) (where the Regulatee is a CPA) is convicted of an offence under Part V (Perjury) of the Crimes Ordinance (Cap. 200); or
 - (e) (where the Regulatee is a CPA) is convicted in Hong Kong or elsewhere of any offence involving dishonesty.
9. However, a Regulatee who does an act or makes an omission referred to above is not to be regarded as being guilty of CPA misconduct if: Section 37AA of the AFRCO
- (a) the Regulatee is a PIE auditor or a registered responsible person;
 - (b) the act or omission amounts to a practice irregularity within the meaning of section 4 of the AFRCO; and
 - (c) the Regulatee has accordingly committed misconduct as described in section 37A or 37B of the AFRCO.
10. For such cases, please refer to the [“Discipline Policy Statement for PIE Auditors and Registered Responsible Persons”](#) available on the AFRC’s website (www.afrc.org.hk).

Examples of a “professional irregularity”

11. Examples of a “professional irregularity” include situations where a Regulatee: Section 3B of the AFRCO
- (a) falsifies or causes to be falsified a document;
 - (b) makes a statement, in respect of a document, that is material and that the Regulatee knows to be false or does not believe to be true;
 - (c) fails to observe, maintain or otherwise apply a PAO professional standard;

- (d) fails to comply with an applicable AML / CTF requirement;
 - (e) while being a director of a corporate practice or a trust or company services provider (TCSP) licensee, or a responsible person of a limited partnership fund:
 - (i) causes or allows a breach of an AML / CTF requirement by the corporate practice, licensee or fund; or
 - (ii) fails to take reasonable steps to prevent such a breach;
 - (f) fails, without reasonable excuse, to comply with a requirement imposed by a CPA inspector or CPA investigator;
 - (g) fails to comply with-
 - (i) any regulation made or any direction lawfully given by the AFRC; or
 - (ii) the provisions of any bylaw or rule made or any direction lawfully given by the Council of the Hong Kong Institute of Certified Public Accountants;
 - (h) is negligent in the conduct of the Regulatee's profession;
 - (i) is guilty of professional misconduct; or
 - (j) is guilty of dishonourable conduct (or, in the case of a corporate practice, does or omits to do something that, if the person were an individual CPA, would reasonably be regarded as being dishonourable conduct).
12. The above examples are not exhaustive. Please refer to section 3B of the AFRCO for a full list of matters that constitute a "professional irregularity".

Opportunity to be heard

13. The AFRC must not impose a sanction on a Regulatee without first giving the Regulatee a reasonable opportunity of being heard, i.e. an opportunity to make written or oral representations. [Section 37G of the AFRCO](#)

14. Please refer to the [“Outline of the AFRC’s Disciplinary Process”](#), which is available on the AFRC’s website (www.afrc.org.hk) for details in relation to the opportunity to make representations.

Sanctions for CPA misconduct

15. The AFRC may impose the following sanctions for CPA misconduct on a Regulatee: Section 37CA of the AFRCO
- (a) public or private reprimand;
 - (b) pecuniary penalty;
 - (c) revocation or suspension of the Regulatee’s registration;
 - (d) cancellation or non-issuance of a practising certificate; and
 - (e) investigation costs and expenses.
16. The above sanctions may be imposed singly or in combination.

Approach to determining pecuniary penalty and other sanctions

17. The AFRC will consider all the relevant circumstances of a case to determine the appropriate sanction or combination of sanctions which would achieve the purpose of disciplinary action with due regard to the principle of proportionality.
18. Before imposing a pecuniary penalty, the AFRC is required to have regard to the [“Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons”](#), which is available on the AFRC’s website (www.afrc.org.hk). Section 37H of the AFRCO
19. For further information as to the AFRC’s approach to sanctions generally, please refer to the [“Sanctions Policy for Professional Persons”](#) which is also available on the AFRC’s website (www.afrc.org.hk).

Review of the AFRC’s disciplinary decisions

20. Any Regulatee who is aggrieved by the AFRC’s disciplinary decision may, within 21 days beginning on the day after a notice of the decision is issued by the AFRC, Sections 37M and 37Q of the AFRCO

apply to the Accounting and Financial Reporting Review Tribunal (“**Tribunal**”) for a review of that decision.

21. The Tribunal is independent of the AFRC. The Tribunal consists of a chairperson (a former Justice of Appeal of the Court of Appeal, a former judge / recorder / deputy judge of the Court of First Instance or a person eligible for appointment as a judge of the High Court) and two other ordinary members from the Tribunal panel, all of whom must not be public officers. Sections 2, 3, and 5 of Schedule 4A of the AFRCO
22. The chairperson and members of the Tribunal panel must be appointed by the Chief Executive of the HKSAR. Sections 2 and 3 of Schedule 4A of the AFRCO

Appeal

23. If a party to a review is dissatisfied with the determination of the review made by the Tribunal, the party may, within 30 days after the day on which the determination is issued to the party, apply to the Court of Appeal for leave to appeal against that determination on a question of law and/or fact. Sections 37ZF and 37ZG of the AFRCO

Disclosure of sanctions

24. The AFRC must disclose to the public the material facts of the case, the AFRC’s decision with reasons and the disciplinary sanction imposed / action taken, unless the disclosure: Section 37K of the AFRCO
- (a) relates to a private reprimand;
 - (b) may adversely affect any criminal proceedings before a court or magistrate; or
 - (c) in the AFRC’s opinion, is not in the interest of the investing public or in the public interest.
25. The disclosure may only be made after: Section 37K of the AFRCO
- (a) where a sanction is imposed upon the conclusion of the disciplinary process –
 - (i) the expiry of the period for lodging an application for review to the Tribunal; or

- (ii) if an application for review is lodged, the disposal of the review; or
 - (b) where a settlement is reached and disciplinary action is taken by consent pursuant to section 371 of the AFRCO – a notice pursuant to section 371(4) of the AFRCO is issued.
26. In general, disclosure will be made by means of a press release, which will be made available on the AFRC's website (www.afrc.org.hk).

Disclaimer

27. This document provides a summary for reference only. It is not legal advice. Regulatees should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 1H – Guidance Note on Cooperation with the AFRC

Purpose of this document

1. The Accounting and Financial Reporting Council (“**AFRC**”) is publishing this Guidance Note to explain and provide guidance on the AFRC’s approach to cooperation in investigations and disciplinary actions.
2. The approach to cooperation outlined in this Guidance Note is applicable to all regulatees of the AFRC (i.e. public interest entity (“**PIE**”) auditors, registered responsible persons of registered PIE auditors and professional persons (together referred to as “**Regulatees**”).
3. The AFRC recognizes and values cooperation in its investigations and disciplinary actions as it assists the AFRC to achieve its regulatory objectives. Among other things, cooperation facilitates the early detection and prompt remediation of misconduct and fosters a culture of responsibility and self-improvement in Regulatees. It also facilitates the efficient use of the AFRC’s manpower and other resources in investigating and disciplining misconduct, and the timely conclusion of such matters will in return benefit the Regulatees concerned.
4. The AFRC takes cooperation into consideration when determining sanctions and may reduce the sanctions as appropriate in light of all the circumstances of the case.
5. This Guidance Note will not operate in criminal cases as the Department of Justice has the sole discretion over criminal prosecutions of offences under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).

Definitions

6. In this document, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
practice unit	A practice unit means:	2(1)

	<ul style="list-style-type: none"> • a certified public accountant (practising) who practises accountancy on the accountant's own account under the accountant's own name as registered under section 22(2) of the Professional Accountants Ordinance (Cap. 50); • a CPA firm; or • a corporate practice. 	
professional person	<p>A professional person means:</p> <ul style="list-style-type: none"> • a certified public accountant; or • a practice unit. 	2(1)
PIE	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A
registered responsible person	<p>A registered responsible person means any of the following individuals whose name is recorded in the PIE auditors register as a responsible person of a registered PIE auditor:</p> <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)

Forms of cooperation

7. Regulatees are expected to cooperate with the AFRC in all its regulatory processes. As such, cooperation in the AFRC's investigations and disciplinary process will be considered as a mitigating factor at the point of determining sanctions only when the Regulatee concerned has provided an exceptional level of cooperation with the AFRC.
8. Non-exhaustive examples of conduct which may constitute cooperation include:

- (a) promptly and voluntarily self-reporting to the AFRC any facts and/or matters which may constitute an allegation of misconduct and making full disclosure of such facts and/or matters before the allegation comes to the attention of the AFRC. Self-reporting is generally more valuable the earlier it is provided and will generally attract greater credit than cooperation with an investigation which has been prompted by someone or something else;
- (b) providing true and complete information regarding the misconduct, including:
 - (i) taking early and proactive steps to preserve and collect important evidence;
 - (ii) making full and frank disclosure of all relevant information;
 - (iii) promptly and voluntarily providing useful information or documentation to the AFRC that might not have been discovered absent that cooperation, or not specifically requested by the AFRC and beyond what is required pursuant to legal and regulatory reporting requirements;
 - (iv) conducting a timely, thorough, objective and competent internal investigation into the misconduct when it was discovered and sharing the outcomes of such internal investigation with the AFRC voluntarily and promptly;
 - (v) making timely arrangements to provide evidence and information;
 - (vi) providing useful intelligence; and
 - (vii) to the extent legally permissible, disclosing relevant documents located outside Hong Kong and facilitating the timely production of documents and witnesses from outside Hong Kong;
- (c) taking a proactive approach and devoting manpower and resources to assist the AFRC's investigation;
- (d) acceptance of liability, for instance:
 - (i) willingness to take responsibility for the misconduct;

- (ii) accepting liability and proposed sanctions; and
 - (iii) taking a proactive and positive approach to bring the case to an early conclusion; and
- (e) taking prompt and timely remedial actions (i.e. voluntary, timely and meaningful actions designed to reduce the likelihood and risk that similar misconduct will recur, as well as actions to correct the misconduct), for instance:
- (i) taking early and active steps to contain and remedy the misconduct (e.g. correcting any misleading statement or impression);
 - (ii) promptly and voluntarily modifying and improving the practice unit's or PIE auditor's quality controls or other internal policies and procedures to prevent recurrence of the misconduct. A practice unit's or PIE auditor's improvements in response to quality control criticisms or defects identified by the AFRC in its inspection process would not ordinarily constitute cooperation for the purpose of this Guidance Note;
 - (iii) re-assigning or limiting the activities of those individuals (which might include members of the audit team, as well as persons outside the audit team, including persons in the practice unit's or PIE auditor's management) responsible for the misconduct and, in appropriate cases, by disciplining the responsible individuals;
 - (iv) promptly notifying and cooperating with the entity (or audit committee thereof) for which the Regulatee performed services related to the misconduct, so that the entity (or audit committee thereof) can, if necessary, take steps to comply with relevant laws and regulations;
 - (v) proactively carrying out effective remediation to address the AFRC's concerns and prevent similar misconduct from arising in the future; and
 - (vi) establishing whether the misconduct adversely affected, or (if known) would have adversely affected, other persons and voluntarily and appropriately taking remedial actions to address any such adverse effects (such as by making compensation).

9. Merely fulfilling statutory or regulatory obligations does not, in itself, constitute cooperation for the purpose of this Guidance Note. This includes, for instance, compliance with an inspector's or investigator's requirement issued pursuant to section 20ZZC(1), 20ZZJ(1), 21C(2), 21D(1) or (2), 25(1) or 26(1) or (2) of the AFRCO for producing documents, attending an interview or making a statutory declaration.

Assessing the degree of cooperation

10. While the AFRC seeks to maintain consistency in its disciplinary actions, fairness and public interest require each case to be considered on its own facts. As such, the principles and assessment factors set out in this Guidance Note are neither exhaustive nor definitive.
11. The AFRC considers all relevant circumstances when assessing the degree of cooperation. The factors which the AFRC generally takes into account include:
 - (a) the nature and value of the cooperation provided, including:
 - (i) timeliness of the cooperation;
 - (ii) quality, extent, substance and reliability of the assistance or remedial actions;
 - (iii) truthfulness and completeness of any information provided;
 - (iv) usefulness of intelligence provided (e.g. whether the AFRC's investigation was initiated based on the intelligence provided); and
 - (v) amount of time, costs and resources saved by the AFRC as a result of the cooperation;
 - (b) the nature, seriousness and impact of the misconduct and the degree of cooperation relative to those matters; and
 - (c) the general conduct of the Regulatee concerned after the misconduct and other circumstances of the Regulatee.

Uncooperative conduct

12. If the Regulatee concerned fails to provide the level of cooperation required, or engages in uncooperative conduct with the intent or effect of impeding or prejudicing the AFRC's investigation or disciplinary process, the AFRC may take this into account as an aggravating factor when determining the appropriate sanction.
13. Non-exhaustive examples of uncooperative conduct include:
 - (a) delaying the self-reporting of the misconduct;
 - (b) withholding or concealing information relating to the misconduct;
 - (c) engaging in evasive conduct during the AFRC's investigation;
 - (d) intentionally and unnecessarily prolonging the AFRC's investigation;
 - (e) failing to comply, within the stipulated timeframe specified by the AFRC and without reasonable excuse, with requirements to produce the required information / documentation, attend interviews or make statutory declarations;
 - (f) lack of care in ensuring that information provided to the AFRC is accurate and complete;
 - (g) failing to provide adequate explanation of documents and information provided;
 - (h) failing to prepare properly for interviews (e.g. failing to review materials provided by the AFRC in advance);
 - (i) failing to conduct an adequate search for documents and information requested by the AFRC; and
 - (j) failing to take prompt and timely remedial actions.

Legal professional privilege

14. The AFRC fully respects Regulatees' right to exercise legal professional privilege. The assertion of this right, such as a bona fide refusal to waive legal professional

privilege attached to a document provided to the AFRC, will not be regarded as uncooperative conduct.

15. However, voluntary waiver of legal professional privilege over one or more documents, even on a limited basis, may assist the AFRC's investigation and will be taken into consideration when the AFRC assesses the degree of cooperation provided.

The AFRC's approach to cooperation

16. The AFRC takes into account the cooperation provided by Regulatees and all relevant circumstances when determining the appropriate disciplinary response.
17. Among other things, the AFRC may enter into an agreement with a PIE auditor or registered responsible person pursuant to section 37I(1) of the AFRCO ("**section 37I(1) Agreement**") or with a professional person pursuant to section 37I(1A) of the AFRCO ("**section 37I(1A) Agreement**") to resolve concerns in relation to which the AFRC is contemplating whether to impose a disciplinary sanction, provided that the AFRC considers it appropriate to do so in the interest of the investing public or in the public interest. In exercising this discretion, the AFRC will consider the nature and degree of cooperation provided by the Regulatee concerned.
18. A Regulatee may approach the AFRC for discussions with a view to resolving the AFRC's concerns at any time from the detection of the misconduct up to the issuance of the Decision Notice. Such discussions are normally conducted on a "without prejudice" basis. Whether and, if so, at what stage the AFRC is willing to consider resolution discussions depends on the circumstances of each case. As a general principle, the AFRC is more willing to enter into a section 37I(1) or 37I(1A) Agreement if extensive and valuable cooperation is demonstrated by the Regulatee in the ways described in paragraphs 8 and 15 above, and in particular, self-reporting.
19. Given the need for credible deterrence and public accountability, the AFRC considers that, as a general principle, it would not be in the public interest for disciplinary actions to be resolved in private (i.e. without publicity) or on a "no admission of liability" basis. Accordingly, offers to resolve disciplinary actions on such terms are unlikely to be acceptable to the AFRC or regarded as cooperation.

20. While cooperation is a factor to be taken into account, each case turns on its own facts. The AFRC's willingness to resolve disciplinary actions with a Regulatee under a section 371(1) or 371(1A) Agreement based on a particular set of facts does not mean that the AFRC will consider it appropriate to do so if the circumstances are different.

Recognition for cooperation

21. In recognition of the benefits of early disposals of disciplinary matters, the AFRC may recognize cooperation by reducing the sanctions if this is appropriate in all the circumstances of the case. The reduction may vary depending on when the early resolution is reached.
22. To encourage early cooperation and resolution of cases, the AFRC has divided its disciplinary process into three stages:
- (a) **Stage 1** – from the detection of the misconduct by the Regulatee up to before the issuance of a Notice of Proposed Disciplinary Action (“**NPDA**”);
 - (b) **Stage 2** – from the issuance of an NPDA up to the deadline for the Regulatee to make representations in response to the NPDA; and
 - (c) **Stage 3** – from the day after the deadline for making representations up to the issuance of a Decision Notice.
23. As a general principle, where a Regulatee fully cooperates with the AFRC and a section 371(1) or 371(1A) Agreement is reached in:
- (a) **Stage 1**, the AFRC may reduce the sanction(s) by up to 30%;
 - (b) **Stage 2** (or if the Regulatee accepts the AFRC's findings and proposed sanctions in the NPDA in Stage 2), the AFRC may reduce the sanction(s) by up to 20%; and
 - (c) **Stage 3** (or if the Regulatee accepts the AFRC's findings and proposed sanctions in the NPDA in Stage 3), the AFRC may reduce the sanction(s) by up to 10%.
24. However, if the Regulatee has derived any illegitimate financial benefits or has illegitimately avoided any losses, the AFRC will generally take steps to ensure that no illegitimate gain is retained. Accordingly, no discount will generally be

applied to the amount of any pecuniary penalty that equates to the removal of any such benefit gained or loss avoided.

25. For the avoidance of doubt, the discounts in sanction referred to in paragraph 23 above represent the maximum discount that the AFRC will generally render at each stage. Notwithstanding the early resolution of the matter, the discount rendered to a Regulatee may be reduced if, for example, the Regulatee had previously engaged in uncooperative conduct.

Enhancing transparency of the AFRC's cooperation policy

26. To enhance the transparency of the disciplinary process, the AFRC seeks to provide an appropriate level of disclosure regarding cooperation.
27. Where the AFRC takes into account the cooperation provided by a Regulatee in determining the appropriate disciplinary sanctions, the AFRC will generally:
- (a) in the course of resolution discussions, if the AFRC considers it appropriate to impose a reduced sanction, inform the Regulatee of what the original sanction would have been and the final sanction imposed after taking cooperation into account; and
 - (b) at the conclusion of the disciplinary action, state in the relevant Decision Notice, Statement of Disciplinary Action and/or press release that the Regulatee cooperated with the AFRC and provide a general description of the cooperation provided.

Disclaimer

28. The provisions in this Guidance Note are guiding principles only. They do not in any way limit the discretion of the AFRC to evaluate each case on its own facts and circumstances. They do not confer any right or create any legitimate expectation on any person to:
- (a) be informed of the progress and findings of any AFRC investigation;
 - (b) be informed of the AFRC's preliminary assessment of any potential disciplinary action prior to the issuance of the NPDA;
 - (c) resolve a matter pursuant to section 37I(1) or 37I(1A) of the AFRCO; or

(d) receive any reduction in the proposed sanctions.

29. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Appendix C

Personal Information Collection Statement

PERSONAL INFORMATION COLLECTION STATEMENT

This Personal Information Collection Statement (“**PICS**”) is made in accordance with the guidelines issued by the Office of the Privacy Commissioner for Personal Data. The PICS sets out the policies and practices of the Financial Reporting Council (“**FRC**”) with regard to your Personal Data (which means personal data as defined in the Personal Data (Privacy) Ordinance (Cap. 486) (“**PDPO**”). For the FRC’s Privacy Policy Statement, please refer to: <https://www.frc.org.hk/en-us/privacy-policy>.

Purpose of Collection

The FRC may use the Personal Data provided by you for one or more of the following purposes:-

- to administer and perform the FRC’s statutory functions under the Financial Reporting Council Ordinance (Cap. 588) (“**FRCO**”) and other rules, regulations and guidelines made or promulgated pursuant to the powers vested in the FRC as in force at the relevant time or from time to time and to carry out its functions as a regulator;
- for research and statistical purposes; and
- other purposes directly relating to any of the above or those permitted by law.

Failure to provide the requested Personal Data may result in the FRC being unable to perform its statutory functions under the FRCO.

Transfer of Personal Data

Personal Data may be disclosed by the FRC to members of the public in Hong Kong and elsewhere as part of the public consultation on this consultation paper. The names of persons who submit comments on this consultation paper, together with the whole or any part of their submissions, may be disclosed to members of the public. This may be done by publishing this information on the FRC’s website and in documents to be published by the FRC during the consultation period or at its conclusion.

Personal Data may also be used, disclosed or transferred by the FRC for any purpose related to the performance of its statutory functions.

Access to Data

You have the right to request access to and correction of your Personal Data in accordance with the provisions of the PDPO. Your right of access includes the right to request a copy of your Personal Data provided to the FRC. The FRC has the right to charge a reasonable fee for processing any data access request.

Retention

Personal Data provided to the FRC in response to this consultation paper will be retained for such period as may be necessary for the proper discharge of the FRC's functions.

Enquiries

Any enquiries regarding the Personal Data provided or requests for access to Personal Data or correction of Personal Data, shall be addressed in writing to:-

Financial Reporting Council
24th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong



Section 2: Engagement relating to investigation and enquiry

The FRC regulates through carrying out investigations and conducting enquiries. An effective regime that regulates the accountancy profession and at the same time fosters high quality financial reporting is crucial for the business community and capital market respectively. This is essential for maintaining Hong Kong's status as an international financial centre.

With the passage of the Amendment Ordinance 2021, the investigation powers of the AFRC will be expanded to cover professional persons (i.e. certified public accountants and practice units), in addition to its existing investigation powers over PIE auditors, registered responsible persons of registered PIE auditors and non-PIE auditors.

The FRC has prepared the following documents to provide the public with an overview of the legal regime and processes pertaining to its investigation and enquiry functions:

Document No.	Document
2A	Investigation Policy Statement for PIE Auditors, Non-PIE Auditors and Registered Responsible Persons
2B	Investigation Policy Statement for Professional Persons
2C	Outline of the AFRC's Investigation Process
2D	Investigation Policy Statement (in relation to audits or the preparation of specified reports completed for listed entities before 1 October 2019)
2E	Outline of the AFRC's Investigation Process (in relation to audits or the preparation of specified reports completed for listed entities before 1 October 2019)
2F	Enquiry Policy Statement for Listed Entities
2G	Outline of the AFRC's Enquiry Process

Document 2A – Investigation Policy Statement for PIE Auditors, Non-PIE Auditors and Registered Responsible Persons

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. Under the AFRCO, the AFRC is empowered to direct an investigation to be carried out in respect of the following persons under certain circumstances:
 - (a) public interest entity (“**PIE**”) auditors, being:
 - (i) registered PIE auditors; or
 - (ii) recognized PIE auditors;
 - (b) non-PIE auditors; and
 - (c) registered responsible persons of a registered PIE auditor
 (together referred to as “**Regulatees**”).
3. A non-PIE is defined in the AFRCO as a listed corporation, the listed securities of which do not comprise shares or stocks. A non-PIE auditor is defined in the AFRCO as a practice unit that undertakes or carries out a non-PIE engagement. Readers should refer to the Definitions section below.

Definitions

4. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
authorized institution	An authorized institution means an authorized institution within the meaning of section 2(1) of the Banking Ordinance (Cap. 155) i.e. <ul style="list-style-type: none"> • a bank; 	2(1)

	<ul style="list-style-type: none"> • a restricted licence bank; or • a deposit-taking company. 	
certified public accountant (“CPA”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50) (“PA Ordinance”).	2(1)
controller	A controller means a person who is an indirect controller, or a majority shareholder controller, within the meaning of section 2(1) of the Banking Ordinance (Cap. 155).	2(1)
investigator	<p>An investigator means:</p> <ul style="list-style-type: none"> • the Audit Investigation Board established by section 22(1) of the AFRCO; or • a person appointed as an investigator under section 22A of the AFRCO i.e. an employee of the AFRC or with the consent of the Financial Secretary, any other person. 	2(1)
listed entity	<p>A listed entity means:</p> <ul style="list-style-type: none"> • a listed corporation; or • a listed collective investment scheme. 	3(1)
non-PIE	A non-PIE means a listed corporation the listed securities of which do not comprise shares or stocks.	3(1)
non-PIE auditor	A non-PIE auditor means a practice unit that undertakes or carries out a non-PIE engagement.	3A
non-PIE engagement	<p>A non-PIE engagement means any of the following types of engagements for the preparation of:</p> <ul style="list-style-type: none"> • an auditor’s report on a non-PIE’s financial statements required to be prepared under 	3A; Part 2 of Schedule 1A

	<p>section 379 of the Companies Ordinance (Cap. 622) or annual accounts required to be prepared under the Listing Rules; or</p> <ul style="list-style-type: none"> • a specified report required to be included in a listing document for the listing of a corporation's securities (other than shares and stocks). 	
PIE	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A(1)
PIE engagement	<p>A PIE engagement means any of the following types of engagements for the preparation of:</p> <ul style="list-style-type: none"> • an auditor's report on a PIE's financial statements/annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules or any relevant code; • a specified report required to be included in a listing document for the listing of a corporation's shares or stocks or for the listing of a collective investment scheme; or • an accountant's report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition. 	3A(1); Part 1 of Schedule 1A
practice unit	<p>A practice unit means:</p> <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under the accountant's own name as registered under section 22(2) of the PA Ordinance; • a CPA firm; or 	2(1)

	<ul style="list-style-type: none"> • a corporate practice. 	
professional standard	<p>A professional standard means:</p> <ul style="list-style-type: none"> • any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been issued or specified, under section 18A of the PA Ordinance; • any standard on professional ethics, or accounting, auditing or assurance practices, issued or specified by the International Accounting Standards Board, the International Auditing and Assurance Standards Board or the International Ethics Standards Board for Accountants; • any standard on professional ethics, or accounting, auditing or assurance practices, comparable to those referred to above which is allowed by the Securities and Futures Commission pursuant to the relevant code or by the Hong Kong Exchanges and Clearing Limited pursuant to the Listing Rules; or • any standard on professional ethics, or accounting, auditing or assurance practices, specified in the Listing Rules. 	2(1)
recognized PIE auditor	A recognized PIE auditor means an overseas auditor recognized under Division 3 of Part 3, including a Mainland auditor recognized under section 20ZT of the AFRCO.	3A(1)
registered PIE auditor	A registered PIE auditor means a practice unit registered under Division 2 of Part 3 of the AFRCO.	3A(1)
registered responsible person	A registered responsible person means any of the following individuals whose name is recorded in the PIE auditors register as a responsible person of a registered PIE auditor:	2(1)

	<ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	
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Purpose of this document

5. The purpose of this Policy Statement is to provide an overview of the legal regime of the investigation function of the AFRC for Regulatees.
6. For details of the AFRC’s investigation process, please refer to the [“Outline of the AFRC’s Investigation Process”](#), which is available on the AFRC’s website (www.afrc.org.hk).

Objectives of investigation

7. The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accountancy profession is crucial for the business community and is essential for maintaining Hong Kong’s status as an international financial centre. This is particularly the case for auditors of PIEs and non-PIEs, as investors may rely upon the audited financial statements of PIEs and non-PIEs when making investment decisions.
8. The AFRC regulates through carrying out investigations into the relevant conduct of Regulatees under the AFRCO. It ensures that misconduct or practice irregularities committed by Regulatees can be identified and responded to promptly and adequately, so that appropriate follow-up action can be taken. Such follow-up action may include the imposition of sanctions or referral to other regulators or law enforcement agencies for conduct falling within their jurisdiction.

Circumstances in which the AFRC may direct investigations to be carried out

In relation to PIE auditors and registered responsible persons

9. Pursuant to section 23 of the AFRCO, the AFRC may direct an investigator to carry out an investigation in relation to a PIE auditor or registered responsible person where the AFRC:
 - (a) has reasonable cause to believe that a PIE auditor has carried out a PIE engagement completed on or after 1 October 2019 in a way that is not in the interest of the investing public or in the public interest;

Section 23 of the AFRCO

- (b) has reasonable cause to believe that a provision of the AFRCO may have been contravened by a PIE auditor or registered responsible person; or
- (c) for considering whether to impose a sanction under section 37D, 37E or 37F of the AFRCO, has reason to inquire into whether a PIE auditor or registered responsible person, or a person while being such an auditor or responsible person, has or had committed a misconduct (see paragraph 11 below).

In relation to non-PIE auditors

10. Pursuant to section 23A of the AFRCO, the AFRC may direct an investigator to carry out an investigation in relation to a non-PIE auditor where the AFRC has a reasonable cause to believe that a non-PIE auditor has or had committed a practice irregularity as defined under section 4 of the AFRCO (see paragraph 12 below).

Section 23A
of the
AFRCO

Misconduct

11. As provided in sections 37A and 37B of the AFRCO, misconduct in this context generally refers to:
- (a) a contravention of a provision of the AFRCO (subject to certain exceptions);
 - (b) a contravention of a condition imposed in relation to the registration or recognition of the PIE auditor concerned;
 - (c) a contravention of a requirement imposed under the AFRCO (subject to certain exceptions);
 - (d) conduct in relation to a PIE engagement which is or is likely to be prejudicial to the interest of the investing public or the public interest; or
 - (e) a “practice irregularity” as defined under section 4 of the AFRCO (see paragraph 12 below).

Sections 37A
and 37B of
the AFRCO

Examples of a “practice irregularity”

12. Examples of a “practice irregularity” include situations where a Regulatee, in relation to a PIE engagement or non-PIE engagement:

Section 4 of
the AFRCO

- (a) falsified or caused to be falsified a document;
 - (b) made a statement, in respect of a document, that was material and that the Regulatee knew to be false or did not believe to be true;
 - (c) has been negligent in the conduct of the Regulatee's profession;
 - (d) has been guilty of professional misconduct;
 - (e) did or omitted to do something that would reasonably be regarded as bringing or likely to bring discredit on the Regulatee, the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) or the accountancy profession;
 - (f) failed or neglected to observe, maintain or otherwise apply a professional standard; or
 - (g) refused or neglected to comply with any direction lawfully given by the AFRC, or the provisions of any bylaw or rule made, or any direction lawfully given by the Council of the HKICPA.
13. The above examples are not exhaustive. Please refer to section 4 of the AFRCO for a full list of matters that constitute a “practice irregularity”.

Powers of investigation

Powers of investigator to issue certain requirements

14. Pursuant to section 25 of the AFRCO, for the purpose of the investigation, an investigator may require a person, (i) who is relevant to the matter under investigation; or (ii) whom an investigator has reasonable cause to believe to be in possession of a relevant record or document, or to be otherwise in possession of the relevant information (“**Specified Person**”), to:
- (a) produce any record or document relevant to the investigation;
 - (b) explain or give further particulars in relation to a record or document produced;
 - (c) attend before the investigator to answer questions relating to the investigation;

Section 25 of
the AFRCO

- (d) answer in writing to a question relating to the investigation raised by the investigator; and
 - (e) give the investigator all other assistance in connection with the investigation that the person is reasonably able to give.
15. An investigator may also require a Specified Person to verify by a statutory declaration within the time specified in a written notice: Section 26 of the AFRCO
- (a) the explanation, particulars or answer if a person gives any explanation, further particulars or answer in compliance with the requirement imposed in paragraph 14 above; or
 - (b) the relevant fact or reason if a person does not give any explanation, further particulars or answer in compliance with the requirement imposed in paragraph 14 above for the reason that the information concerned is not within the person's knowledge or possession.

(the requirements in paragraphs 14 and 15 above are together referred to as "**Specified Requirements**")

Powers to apply to the magistrate for warrants

16. If a magistrate is satisfied by information on oath laid by an investigator that there are reasonable grounds to suspect that there is, or is likely to be, on premises specified in the information any record or document that may be required to be produced, the magistrate may issue a warrant authorizing a person specified in it to: Section 34 of the AFRCO
- (a) enter the premises, if necessary by force, at any time within 7 days, or any other specified period; and
 - (b) search for, seize and remove any record or document that the person so specified has reasonable cause to believe may be required to be produced.
17. Please refer to section 34 of the AFRCO for details.

Rights of a Specified Person

18. A Specified Person upon whom a requirement is imposed pursuant to section 25 of the AFRCO has certain rights.

Right against self-incrimination

19. A Specified Person is not excused from complying with a requirement to provide information or an explanation, or to answer a question only on the ground that to do so might tend to incriminate the Specified Person. However, if an investigator requires a Specified Person to give an explanation or further particulars, or to answer a question, the investigator must ensure that the Specified Person has first been informed or reminded of the limitations imposed by section 30(2) of the AFRCO on the admissibility in evidence of the requirement and of the explanation or particulars, or the question and answer. Sections 30 and 31(9) of the AFRCO
20. Section 30(2) of the AFRCO provides that, if the relevant explanation, particulars or answer might tend to incriminate the Specified Person and the Specified Person so claims before giving the relevant explanation, particulars or answer, the requirement, as well as the explanation or particulars, or the question and answer, are not admissible in evidence against the Specified Person in criminal proceedings other than those in which the Specified Person is charged with an offence referred to in paragraph 22 below or which relate to perjury.

Right to inspection of records or documents seized

21. If the investigator has taken possession of any record or document during the investigation, the investigator must, subject to any reasonable conditions the investigator imposes as to security, permit a Specified Person who would be entitled to inspect the record or document had the investigator not taken possession of it, to inspect it and to make copies or otherwise record details of it at all reasonable times. Section 33 of the AFRCO

Consequences of non-compliance with the Specified Requirements

Offences

22. It is important for any person issued with Specified Requirements to comply with them. Failure to do so without reasonable excuse or with intent to defraud amounts to an offence under the AFRCO and is punishable upon conviction by a Section 31 of the AFRCO

fine and/or imprisonment. Please refer to section 31 of the AFRCO for a full list of the relevant offences.

Powers of the Court of First Instance

23. If a Specified Person fails to comply with the Specified Requirements, an investigator may make an application to the Court of First Instance. On being satisfied that there is no reasonable excuse for the Specified Person not to comply with the Specified Requirements, the Court of First Instance may, upon request by the Investigator:

Section 32 of the AFRCO

- (a) order the Specified Person to comply with the Specified Requirements within the specified period; and
- (b) punish the Specified Person and any other person knowingly involved in the failure, in the same manner as if the person had been guilty of contempt of court.

Interrelation with certain regulatory bodies

Informing other regulators of the investigation

24. If the investigation relates to a PIE engagement or non-PIE engagement completed on or after 1 October 2019 for a listed entity which is the following:

Section 24 of the AFRCO

- (a) an authorized institution or to the AFRC's knowledge, an entity which is a controller of an authorized institution, has as its controller an authorized institution or has a controller that is also a controller of an authorized institution;
- (b) an insurer authorized under the Insurance Ordinance (Cap. 41);
- (c) a licensed person within the meaning of the Securities and Futures Ordinance (Cap. 571) ("**SFO**"), or a collective investment scheme authorized under the SFO; or
- (d) an approved trustee within the meaning of the Mandatory Provident Fund Schemes Ordinance (Cap. 485),

the AFRC must give a written notice to the Monetary Authority, the Insurance Authority, the Securities and Futures Commission, or the Monetary Provident

Fund Schemes Authority respectively as the relevant regulator of that entity informing them that the investigation is to be carried out.

Consulting other regulators before imposing Specified Requirements

25. Similarly, if the Specified Person belongs to any of the categories referred to in paragraphs 24(a) to (d) above (save that (c) shall refer to a responsible person of the collective investment scheme), the investigator must not impose a Specified Requirement on that person unless, before doing so, the investigator has consulted the Monetary Authority, the Insurance Authority, the Securities and Futures Commission, and the Monetary Provident Fund Schemes Authority respectively.

Section 29 of the AFRCO

Investigation report

26. The investigator will prepare and submit a written investigation report to the AFRC after the completion of the investigation.

Section 31A of the AFRCO

Opportunity to be heard

27. Before submitting the investigation report to the AFRC, the investigator must send a dated draft of the report to the Regulatee and any other person named in the draft investigation report and give them a reasonable opportunity of being heard, i.e. an opportunity to make representations on any matters relating to the report.
28. Please refer to the [“Outline of the AFRC’s Investigation Process”](#), which is available on the AFRC’s website (www.afrc.org.hk) for details in relation to the opportunity to make representations.

Section 31A of the AFRCO

Further actions

29. On an investigation report being submitted to the AFRC, the AFRC may, having regard to the investigation report:
- (a) close the case without further action;
 - (b) take any follow-up action in accordance with the AFRCO that the AFRC considers appropriate; or

Section 31B of the AFRCO

- (c) if the investigation was carried out under section 23 of the AFRCO, also impose a sanction on, or take an action in relation to, the Regulatee concerned under section 37D, 37E, 37F or 37I(1) of the AFRCO as appropriate; or
- (d) if the investigation was carried out under section 23A of the AFRCO, also impose a sanction on, or take an action in relation to, the Regulatee concerned under section 37CA or 37I(1A) of the AFRCO.

Disclosure of investigation report

- 30. The AFRC may adopt and publish or disclose the whole or any part of the investigation report submitted by the investigator. Section 31A
of the
AFRCO
- 31. In deciding whether to publish or disclose an investigation report or any part of it, the AFRC must take into account:
 - (a) whether the publication or disclosure may adversely affect any of the following proceedings that have been, or are likely to be, instituted:
 - (i) any proceedings under Part 3C of the AFRCO relating to reviews and appeals;
 - (ii) any criminal proceedings before a court or magistrate;
 - (iii) any proceedings before the Market Misconduct Tribunal established by section 251(1) of the SFO;
 - (iv) any proceedings under section 41 of the PA Ordinance; or
 - (v) any proceedings before a Disciplinary Committee constituted under section 33(3) of the PA Ordinance as in force immediately before the commencement date of the Financial Reporting Council (Amendment) Ordinance 2021;
 - (b) whether the publication or disclosure may adversely affect any person named in the report; and
 - (c) whether the publication or disclosure would be in the interest of the investing public or in the public interest.

Costs and expenses of investigation in relation to Regulatees

32. If, on a prosecution instituted as a result of the findings of an investigation, a person is convicted by a court or magistrate, the court or magistrate may order the person to pay to the AFRC a sum that is the whole or a part of the costs and expenses of the investigation and the AFRC may recover the sum so ordered as a civil debt due to it. Section 31C of the AFRCO

Preservation of secrecy

33. The AFRCO imposes secrecy obligations on the AFRC and any person to whom the AFRC discloses secret information, including any Specified Person to whom the AFRC discloses information in the course of an investigation. Section 51 of the AFRCO
34. In particular, section 51 of the AFRCO provides that, except in the performance of any function under the AFRCO or for carrying into effect the provisions of the AFRCO, or in the circumstances described in sections 51(2) and (3), the AFRC must not:
- (a) suffer or permit any person to have access to any matter relating to the affairs of any person that comes to the AFRC's knowledge in the performance of any function under the AFRCO; or
 - (b) communicate any such matter to any person other than the person to whom such matter relates.
35. Sections 51(5) and (6) of the AFRCO provide that, where the AFRC discloses information to any person, the person to whom the information is so disclosed, and any other person obtaining or receiving the information from that person, must not disclose the information to any other person unless:
- (a) the AFRC consents to the disclosure;
 - (b) the information has already been made available to the public;
 - (c) the disclosure is for the purpose of seeking advice from, or giving advice by, counsel, or a solicitor, or other professional adviser, acting or proposing to act in a professional capacity in connection with any matter arising under the AFRCO;

- (d) the disclosure is in connection with any judicial or other proceedings to which the person is a party; or
 - (e) the disclosure is in accordance with an order of a court, magistrate or tribunal, or in accordance with a law or a requirement made under a law.
36. Any person who contravenes the secrecy obligations imposed by section 51 of the AFRCO commits a criminal offence.

Disclaimer

37. This document provides a summary for reference only. It is not legal advice. Regulatees should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 2B – Investigation Policy Statement for Professional Persons

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. Under the AFRCO, the AFRC is empowered to direct an investigation to be carried out in relation to professional persons (“**Regulatees**”) in respect of a possible professional irregularity.

Definitions

3. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
AML/ CTF requirement	An AML/ CTF requirement means a requirement set out in Part 2, 3 or 4 of Schedule 2 to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) as may be applicable.	3B(5)
authorized institution	An authorized institution means an authorized institution within the meaning of section 2(1) of the Banking Ordinance (Cap. 155) i.e. <ul style="list-style-type: none"> • a bank; • a restricted licence bank; or • a deposit-taking company. 	2(1)
certified public accountant (“ CPA ”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50) (“ PA Ordinance ”).	2(1)
controller	A controller means a person who is an indirect controller, or a majority shareholder controller,	2(1)

	within the meaning of section 2(1) of the Banking Ordinance (Cap. 155).	
CPA investigator	A CPA investigator means a person appointed as a CPA investigator under section 20ZZG of the AFRCO, i.e. an employee of the AFRC or with the consent of the Financial Secretary, any other person.	2(1)
listed entity	A listed entity means: <ul style="list-style-type: none"> • a listed corporation; or • a listed collective investment scheme. 	3(1)
non-PIE	A non-PIE means a listed corporation the listed securities of which do not comprise shares or stocks.	3(1)
non-PIE auditor	A non-PIE auditor means a practice unit that undertakes or carries out a non-PIE engagement.	3A
non-PIE engagement	A non-PIE engagement means any of the following types of engagements for the preparation of: <ul style="list-style-type: none"> • an auditor's report on a non-PIE's financial statements required to be prepared under section 379 of the Companies Ordinance (Cap. 622) or annual accounts required to be prepared under the Listing Rules; or • a specified report required to be included in a listing document for the listing of a corporation's securities (other than shares and stocks). 	3A; Part 2 of Schedule 1A
PAO professional standard	A PAO professional standard means any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been issued or specified, under section 18A of the PA Ordinance.	2(1)

public interest entity (“ PIE ”)	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A(1)
PIE engagement	<p>A PIE engagement means any of the following types of engagements for the preparation of:</p> <ul style="list-style-type: none"> • an auditor’s report on a PIE’s financial statements/annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules or any relevant code; • a specified report required to be included in a listing document for the listing of a corporation’s shares or stocks or for the listing of a collective investment scheme; or • an accountant’s report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition. 	3A; Part 1 of Schedule 1A
practice unit	<p>A practice unit means:</p> <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under the accountant's own name as registered under section 22(2) of the PA Ordinance; • a CPA firm; or • a corporate practice. 	2(1)
professional person	<p>A professional person means:</p> <ul style="list-style-type: none"> • a CPA; or • a practice unit. 	2(1)

registered responsible person	A registered responsible person means any of the following individuals whose name is recorded in the PIE auditors register as a responsible person of a registered PIE auditor: <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)
specified document	A specified document means any record or document specified by a CPA investigator, or any record or document that is of a class or description specified by a CPA investigator, for the purposes of section 20ZZJ(1) of the AFRCO.	20ZZJ(6)

Purpose of this document

4. The purpose of this Policy Statement is to provide an overview of the legal regime of the investigation function of the AFRC for Regulatees.
5. For details of the AFRC’s investigation process, please refer to the [“*Outline of the AFRC’s Investigation Process*”](#), which is available on the AFRC’s website (www.afrc.org.hk).

Objectives of investigation

6. The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accountancy profession is crucial for the business community and is essential for maintaining Hong Kong’s status as an international financial centre.
7. The AFRC regulates through carrying out investigations in relation to Regulatees into possible professional irregularities. It ensures that professional irregularities committed by Regulatees can be identified and responded to promptly and adequately so that appropriate follow-up action can be taken. Such follow-up action may include the imposition of sanctions or referral to other regulators or law enforcement agencies for conduct falling within their jurisdiction.

Circumstances in which the AFRC may direct investigations to be carried out

8. Pursuant to section 20ZZH of the AFRCO, the AFRC may direct a CPA investigator to carry out an investigation in relation to a Regulatee where the AFRC, for considering whether to impose a sanction under section 37CA of the AFRCO, has reason to inquire into whether a professional person, or a person while being a professional person, has committed a professional irregularity as defined under section 3B of the AFRCO (see paragraph 11 below). Section 20ZZH of the AFRCO
9. However, the direction referred to above must not require an investigation to be carried out if: Section 20ZZH of the AFRCO
- (a) the person to be investigated is or was a PIE auditor, a non-PIE auditor or a registered responsible person of a registered PIE auditor;
 - (b) the investigation relates to a PIE engagement or non-PIE engagement completed by the auditor; and
 - (c) the professional irregularity to be investigated is a practice irregularity as defined under section 4 of the AFRCO.
10. For such cases, please refer to the [“Investigation Policy Statement for PIE Auditors, non-PIE Auditors and Registered Responsible Persons”](#) available on the AFRC’s website (www.afrc.org.hk).

Examples of a “professional irregularity”

11. Examples of a “professional irregularity” include situations where a Regulatee: Section 3B of the AFRCO
- (a) falsifies or causes to be falsified a document;
 - (b) makes a statement, in respect of a document, that is material and that the Regulatee knows to be false or does not believe to be true;
 - (c) fails to observe, maintain or otherwise apply a PAO professional standard;
 - (d) fails to comply with an applicable AML/ CTF requirement;
 - (e) while being a director of a corporate practice or a trust or company services provider (TCSP) licensee, or a responsible person of a limited partnership fund:

- (i) causes or allows a breach of an AML/ CTF requirement by the corporate practice, licensee or fund; or
 - (ii) fails to take reasonable steps to prevent such a breach;
- (f) fails, without reasonable excuse, to comply with a requirement imposed by a CPA inspector or CPA investigator;
- (g) fails to comply with-
- (i) any regulation made or any direction lawfully given by the AFRC; or
 - (ii) the provisions of any bylaw or rule made or any direction lawfully given by the Council of the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”);
- (h) is negligent in the conduct of the Regulatee’s profession;
- (i) is guilty of professional misconduct; or
- (j) is guilty of dishonourable conduct (or, in the case of a corporate practice, does or omits to do something that, if the person were an individual CPA, would reasonably be regarded as being dishonourable conduct).

12. The above examples are not exhaustive. Please refer to section 3B of the AFRCO for a full list of matters that constitute a “professional irregularity”.

Powers of investigation

Powers of CPA investigator to issue certain requirements

13. Pursuant to section 20ZZJ of the AFRCO, for the purpose of the investigation, a CPA investigator has powers to issue certain requirements (“**Specified Requirements**”) to the following persons (“**Specified Persons**”) whom the CPA investigator has reasonable cause to believe to be in possession of, or in control of, a Required Document (as defined in paragraph 14(a) below):

Section
20ZZJ of the
AFRCO

- (a) a professional person;
- (b) a person who is an employee or former employee of a professional person, and a student registered with the HKICPA;

- (c) if the investigation relates to a practice unit, an employee or former employee of the practice unit; and
- (d) if the investigation relates to a CPA, the employer or former employer of the CPA.

14. The Specified Requirements are to:

- (a) produce to the CPA investigator, or give the CPA investigator access to, any specified document in the Specified Person's possession or under the Specified Person's control that the CPA investigator has reasonable cause to believe to be relevant to the investigation ("**Required Document**");
- (b) give to the CPA investigator such explanation or further particulars in respect of a Required Document as the CPA investigator specifies; and
- (c) give to the CPA investigator all assistance in connection with the investigation that the Specified Person is reasonably able to give.

Section
20ZZJ of the
AFRCO

15. A CPA investigator may also:

- (a) inspect, examine or make copies of a Required Document; or
- (b) take any abstract of, or extract from, a Required Document.

Section
20ZZJ of the
AFRCO

Rights of a Specified Person

16. A Specified Person upon whom a requirement is imposed pursuant to section 20ZZJ of the AFRCO has certain rights.

17. If a CPA investigator requires a Specified Person to give an explanation or further particulars, the CPA investigator must ensure that the Specified Person has first been informed or reminded of the limitations imposed by section 20ZZM(2) of the AFRCO on the admissibility in evidence of the requirement and of the explanation or particulars.

Section
20ZZM of the
AFRCO

18. Section 20ZZM(2) of the AFRCO provides that if the relevant explanation or particulars might tend to incriminate the Specified Person and the Specified Person so claims before giving the relevant explanation or particulars, the requirements, as well as the explanation or particulars, are not admissible in evidence against the Specified Person in criminal proceedings other than those in which the Specified Person is charged with an offence which relates to perjury.

Interrelation with certain regulatory bodies

Informing other regulators of the investigation

19. If the investigation relates to the provision of services to any of the following persons:
- (a) an authorized institution or an entity which to the AFRC's knowledge is a controller of an authorized institution, has as its controller an authorized institution or has a controller that is also a controller of an authorized institution;
 - (b) an insurer authorized under the Insurance Ordinance (Cap. 41);
 - (c) a licensed person within the meaning of the Securities and Futures Ordinance (Cap. 571) (“SFO”); or a collective investment scheme authorized under the SFO; or
 - (d) an approved trustee within the meaning of the Mandatory Provident Fund Schemes Ordinance (Cap. 485),

Section
20ZZK of the
AFRCO

the AFRC must give a written notice to the Monetary Authority, the Insurance Authority, the Securities and Futures Commission, or the Monetary Provident Fund Schemes Authority respectively as the relevant regulator of that person informing them that the investigation is to be carried out.

Consulting other regulators before imposing Specified Requirements

20. Similarly, if the Specified Person belongs to any of the categories referred to in paragraphs 19(a) to (d) above (save that (c) shall refer to a responsible person of the collective investment scheme), the CPA investigator must not impose a requirement under section 20ZZJ of the AFRCO on that person unless, before doing so, the CPA investigator has consulted the Monetary Authority, the Insurance Authority, the Securities and Futures Commission, and the Monetary Provident Fund Schemes Authority respectively.

Section
20ZZL of the
AFRCO

Investigation report

21. The CPA investigator will prepare and submit a written investigation report to the AFRC after the completion of the investigation.

Section
20ZZN of the
AFRCO

Opportunity to be heard

22. Before submitting the investigation report to the AFRC, the CPA investigator must send a dated draft of the report to the Regulatee and any other person named in the draft investigation report and give them a reasonable opportunity of being heard, i.e. an opportunity to make representations on any matters relating to the report. Section 20ZZN of the AFRCO
23. Please refer to the [“Outline of the AFRC’s Investigation Process”](#), which is available on the AFRC’s website (www.afrc.org.hk) for details in relation to the opportunity to make representations.

Further actions

24. On an investigation report being submitted to the AFRC, the AFRC may, having regard to the investigation report: Section 20ZZO of the AFRCO
- (a) close the case without further action; or
 - (b) impose a sanction on, or take an action in relation to, the Regulatee under section 37CA or 37I(1A) of the AFRCO.

Disclosure of investigation report

25. The AFRC may publish or disclose the whole or any part of the investigation report submitted by the CPA investigator. Section 20ZZN of the AFRCO
26. In deciding whether to publish or disclose an investigation report or any part of it, the AFRC must take into account:
- (a) whether the publication or disclosure may adversely affect any of the following proceedings that have been, or are likely to be, instituted:
 - (i) any proceedings under Part 3C of the AFRCO relating to reviews and appeals of decisions on Regulatees;
 - (ii) any criminal proceedings before a court or magistrate;
 - (iii) any proceedings before the Market Misconduct Tribunal established by section 251(1) of the SFO;

- (iv) any proceedings under section 41 of the PA Ordinance; or
 - (v) any proceedings before a Disciplinary Committee constituted under section 33(3) of the PA Ordinance as in force immediately before the commencement date of the Financial Reporting Council (Amendment) Ordinance 2021;
- (b) whether the publication or disclosure may adversely affect any person named in the report; and
- (c) whether the publication or disclosure would be in the interest of the investing public or in the public interest.

Preservation of secrecy

27. The AFRCO imposes secrecy obligations on the AFRC and any person to whom the AFRC discloses secret information, including any Specified Person to whom the AFRC discloses information in the course of an investigation. Section 51 of the AFRCO
28. In particular, section 51 of the AFRCO provides that, except in the performance of any function under the AFRCO or for carrying into effect the provisions of the AFRCO, or in the circumstances described in sections 51(2) and (3), the AFRC must not:
- (a) suffer or permit any person to have access to any matter relating to the affairs of any person that comes to the AFRC's knowledge in the performance of any function under the AFRCO; or
 - (b) communicate any such matter to any person other than the person to whom such matter relates.
29. Sections 51(5) and (6) provide that, where the AFRC discloses information to any person, the person to whom the information is so disclosed, and any other person obtaining or receiving the information from that person, must not disclose the information to any other person unless:
- (a) the AFRC consents to the disclosure;
 - (b) the information has already been made available to the public;
 - (c) the disclosure is for the purpose of seeking advice from, or giving advice by, counsel, or a solicitor, or other professional adviser, acting or proposing to

act in a professional capacity in connection with any matter arising under the AFRCO;

- (d) the disclosure is in connection with any judicial or other proceedings to which the person is a party; or
- (e) the disclosure is in accordance with an order of a court, magistrate or tribunal, or in accordance with a law or a requirement made under a law.

30. Any person who contravenes the secrecy obligations imposed by section 51 commits a criminal offence.

Disclaimer

31. This document provides a summary for reference only. It is not legal advice. Regulatees should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 2C – Outline of the AFRC’s Investigation Process

Introduction

1. Under Division 3 of Part 3AA and of Part 3A respectively of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”), the Accounting and Financial Reporting Council (“**AFRC**”) is given the power to direct an investigation to be carried out in respect of the following persons:
 - (a) public interest entity (“**PIE**”) auditors registered or recognized under Part 3 of the AFRCO;
 - (b) non-PIE auditors;
 - (c) registered responsible persons of registered PIE auditors; and
 - (d) professional persons(together referred to as “**Regulatees**”).
2. This document is intended to provide a brief overview of the AFRC’s investigation process, which has been designed to ensure that all Regulatees are treated fairly and impartially.
3. The investigation process outlined in this document is applicable to all Regulatees. However, the scope of investigation, the investigation grounds and the AFRC’s investigation powers over (i) PIE auditors, non-PIE auditors and registered responsible persons of registered PIE auditors; and (ii) professional persons, are different, and the AFRC has issued separate Policy Statements for them. For details, please refer to the [*“Investigation Policy Statement for PIE Auditors, Non-PIE Auditors and Registered Responsible Persons”*](#) and the [*“Investigation Policy Statement for Professional Persons”*](#), both of which are available on the AFRC’s website (www.afrc.org.hk).

Definitions

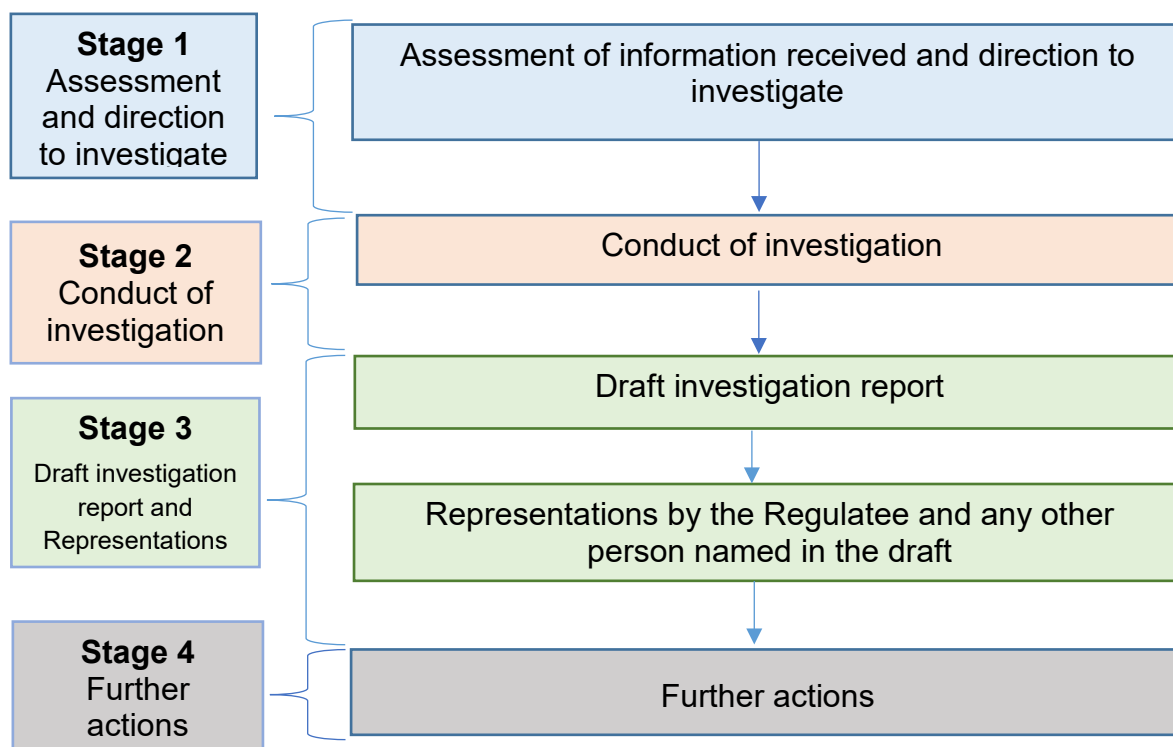
4. In this document, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
CPA investigator	A CPA investigator means a person appointed as a CPA investigator under section 20ZZG of the AFRCO, i.e. an employee of the AFRC or with the consent of the Financial Secretary, any other person.	2(1)
investigator	An investigator means: <ul style="list-style-type: none"> • the Audit Investigation Board established by section 22(1) of the AFRCO; or • a person appointed as an investigator under section 22A of the AFRCO i.e. an employee of the AFRC or with the consent of the Financial Secretary, any other person. 	2(1)
listed entity	A listed entity means: <ul style="list-style-type: none"> • a listed corporation; or • a listed collective investment scheme. 	3(1)
non-PIE	A non-PIE means a listed corporation the listed securities of which do not comprise shares or stocks.	3(1)
non-PIE auditor	A non-PIE auditor means a practice unit that undertakes or carries out a non-PIE engagement.	3A
non-PIE engagement	A non-PIE engagement means any of the following types of engagements for the preparation of:	3A; Part 2 of Schedule 1A

	<ul style="list-style-type: none"> • an auditor's report on a non-PIE's financial statements required to be prepared under section 379 of the Companies Ordinance (Cap. 622) or annual accounts required to be prepared under the Listing Rules; or • a specified report required to be included in a listing document for the listing of a corporation's securities (other than shares and stocks). 	
practice unit	<p>A practice unit means:</p> <ul style="list-style-type: none"> • a certified public accountant (practising) who practises accountancy on the accountant's own account under the accountant's own name as registered under section 22(2) of the Professional Accountants Ordinance (Cap. 50); • a CPA firm; or • a corporate practice. 	2(1)
professional person	<p>A professional person means:</p> <ul style="list-style-type: none"> • a certified public accountant; or • a practice unit. 	2(1)
PIE	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A(1)
registered responsible person	<p>A registered responsible person means any of the following individuals whose name is recorded in the PIE auditors register as a responsible person of a registered PIE auditor:</p> <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)

specified authority	<p>A specified authority means:</p> <ul style="list-style-type: none"> • an authority, or regulatory organization, whether in Hong Kong or elsewhere; or an accountancy body, whether in Hong Kong or elsewhere, that is a member of the International Federation of Accountants; but • does not include a specified enforcement agency. 	2(1)
specified enforcement agency	<p>A specified enforcement agency means:</p> <ul style="list-style-type: none"> • the Commissioner of Policy of Hong Kong; • the Commissioner of the Independent Commission Against Corruption; • the Hong Kong Institute of Certified Public Accountants; • the Hong Kong Exchanges and Clearing Limited; • the Securities and Futures Commission; • the Registrar of Companies; • the Monetary Authority; • the Insurance Authority; • the Commissioner of Inland Revenue; • the Official Receiver; • the Mandatory Provident Fund Schemes Authority; or • the Market Misconduct Tribunal. 	2(1)
specified body	A specified body means a specified authority or a specified enforcement agency.	2(1)

Investigation process



Stage 1

Assessment of information received and direction to investigate

5. The AFRC acquires information about potential misconduct or irregularities from various sources, including complaints from the public, referrals from other regulators, reports from whistleblowers, inspections of practice units, and the AFRC's own review of the financial statements of listed entities. For more information on lodging whistleblowing reports and complaints to the AFRC, please refer to the AFRC's website (www.afrc.org.hk).
6. The AFRC will assess any such information to determine whether to give direction to investigate by identifying any potential misconduct or practice or professional irregularities and determining whether the evidence meets a relevant threshold for initiating an investigation under the AFRCO. For matters which fall outside the remit of the AFRC, the AFRC may refer them to another specified body.
7. If the AFRC concludes that an investigation is warranted and the evidence meets a relevant threshold for initiating an investigation under the AFRCO, the AFRC will direct an investigation to be carried out.

8. Where the AFRC directs an investigator or CPA investigator (in either case, the "**Investigator**") to carry out an investigation, a written direction to investigate will be provided to the Investigator.

Stage 2

Conduct of investigation

9. The Investigator will then conduct an investigation, and for such purpose may exercise the relevant investigation powers under the AFRCO. Such powers include requiring the Regulatee and any other specified persons to produce relevant records and documents, provide information, attend interviews and answer questions from the Investigator, and to give the Investigator all other assistance in connection with the investigation, as appropriate.
10. In respect of an investigation pursuant to section 23 or 23A of the AFRCO in relation to a PIE auditor, non-PIE auditor or registered responsible person, the investigator may require a person to attend an interview to answer any question that may be raised by the investigator pursuant to the investigator's power under section 25(1)(c) of the AFRCO. If so, the investigator will notify the relevant person in writing of the time and place of the interview. The interviewee may be accompanied to the interview by his or her legal adviser but must answer any question raised by the investigator directly, and not through his or her legal adviser.
11. For further information as to the Investigator's powers, please refer to the "[Investigation Policy Statement for PIE Auditors, Non-PIE Auditors and Registered Responsible Persons](#)" and the "[Investigation Policy Statement for Professional Persons](#)", both of which are available on the AFRC's website (www.afrc.org.hk).
12. Any person to whom an Investigator discloses information in connection with an investigation, and any other person obtaining or receiving the information from that person, is subject to a strict obligation to preserve the secrecy of the information. Such persons must not disclose the information to any other person unless:
 - (a) the AFRC consents to the disclosure;
 - (b) the information has already been made available to the public;

- (c) the disclosure is for the purpose of seeking advice from, or giving advice by, counsel, or a solicitor, or other professional adviser, acting or proposing to act in a professional capacity in connection with any matter arising under the AFRCO;
 - (d) the disclosure is in connection with any judicial or other proceedings to which the person is a party; or
 - (e) the disclosure is in accordance with an order of a court, magistrate or tribunal, or in accordance with a law or a requirement made under a law.
13. Any person who discloses information in contravention of the secrecy obligation commits a criminal offence.

Stage 3

(i) Draft investigation report

14. The Investigator will prepare a written investigation report after the completion of the investigation, and send a dated draft of the investigation report to the Regulatee and any other person named in the draft ("**Other Named Persons**") before submitting the investigation report to the AFRC.

(ii) Representations by the Regulatee and Other Named Persons

15. The Investigator will give the Regulatee and any Other Named Persons a reasonable opportunity to be heard in respect of the dated draft investigation report. This will be done by allowing the Regulatee and Other Named Persons to make representations in respect of the draft investigation report. The Regulatee and any Other Named Persons will be informed of this right when the dated draft investigation report is sent to them.
16. The Regulatee and any Other Named Person may make such representations to the Investigator as they consider appropriate. However, if the Regulatee or any Other Named Person does not agree with the content of the draft investigation report, they should identify the matters with which they disagree and explain why they disagree. They should further provide any evidence in their possession which may substantiate their representations.
17. If the Regulatee or Other Named Person fails to take issue with the content of the draft investigation report with which they disagree, it may prejudice their ability to take issue with it at a later date. In particular, any attempt to raise new facts or

evidence at a later date (such as during the course of disciplinary proceedings) may call into question their credibility or reliability, because such facts or evidence were not advanced during the investigation.

(iii) Legal representation

18. The Regulatee may seek legal advice at any point in the process, including obtaining the assistance of legal advisers to prepare written representations in response to the dated draft investigation report.

Stage 4

Further actions

19. On an investigation report being submitted to the AFRC, the AFRC may, having regard to the investigation report:
- (a) close the case without further action;
 - (b) take any follow-up action in accordance with the AFRCO that the AFRC considers appropriate; or
 - (c) impose a sanction on, or take an action in relation to, the Regulatee investigated under the AFRCO.

Cooperation with the AFRC

20. Regulatees are expected to cooperate with the AFRC in all its regulatory processes. It is also in the interest of Regulatees to cooperate with the AFRC at an early stage. This is because cooperation is an important mitigating factor which will be taken into account by the AFRC when determining sanctions in the event any disciplinary action is taken, and may result in the reduction of sanctions. Conversely, uncooperative conduct (such as a failure to comply with any deadlines imposed by the Investigator during the course of the investigation) is an aggravating factor which may result in more severe sanctions being imposed.
21. For more information, please refer to the [“Guidance Note on Cooperation with the AFRC”](#), which is available on the AFRC’s website (www.afrc.org.hk).

Disclaimer

22. This document provides a summary of the AFRC's investigation process for reference only. It is not legal advice. Regulatees should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

**Document 2D –
Investigation Policy
Statement
(in relation to audits or the
preparation of specified reports
completed for listed entities
before 1 October 2019)**

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. The AFRC is empowered to initiate an investigation under certain circumstances in relation to auditors or reporting accountants of listed entities in respect of any audit, or the preparation of any specified report, that was completed for a listed entity before 1 October 2019. [For the purposes of any such investigation, the provisions of the Financial Reporting Council Ordinance (Cap. 588) as in force immediately before 1 October 2019 (the “**2019 FRCO**”) apply. This is because the [Accounting and Financial Reporting Council (Transitional and Saving Provisions and Consequential Amendments) Regulation] dealing with transitional and savings provisions consequent on the enactment of the Financial Reporting Council (Amendment) Ordinance 2021 (41 of 2021) (the “**2021 Amending Ordinance**”) provide that:
 - (a) For any investigation initiated under Part 3 of the 2019 FRCO before the commencement date of the 2021 Amending Ordinance, the 2019 FRCO continues to apply; and
 - (b) After the commencement date of the 2021 Amending Ordinance, an investigation may still be initiated under Part 3 of the 2019 FRCO in relation to any audit, or the preparation of any specified report, that was completed before 1 October 2019, as if the 2021 Amending Ordinance had not come into operation. For any such investigation, the 2019 FRCO continues to apply.]

Definitions

3. In this Policy Statement, the following terms have the meanings defined in the 2019 FRCO as set out below (the definitions in the 2019 FRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the 2019 FRCO	Section under the 2019 FRCO
authorized institution	An authorized institution means an authorized institution within the meaning of section 2(1) of the Banking Ordinance (Cap. 155) i.e.	2(1)

	<ul style="list-style-type: none"> • a bank; • a restricted licence bank; or • a deposit-taking company. 	
authorized officer	An authorized officer means a person authorized by the investigator under section 28(6) of the 2019 FRCO.	21(1)
controller	A controller means a person who is an indirect controller, or a majority shareholder controller, within the meaning of section 2(1) of the Banking Ordinance (Cap. 155).	2(1)
investigator	<p>An investigator means:</p> <ul style="list-style-type: none"> • the AFRC; or • if the Audit Investigation Board (the “AIB”) established under section 22(1) of the 2019 FRCO is directed to conduct an investigation under section 23(1)(b), 23(2)(b) or 23(3)(b) of the 2019 FRCO concerning an auditing irregularity, a reporting irregularity or a relevant irregularity, the AIB. 	21
listed entity	<p>A listed entity means:</p> <ul style="list-style-type: none"> • a listed corporation; or • a listed collective investment scheme. 	3(1)
listing document	<p>A listing document means:</p> <ul style="list-style-type: none"> • in relation to a listed corporation, (i) a prospectus; or (ii) a document issued for the purposes of the Listing Rules that (A) offers any securities issued by the corporation to the public for subscription, or purchase, for a consideration; or (B) is calculated to invite offers by the public to subscribe for, or purchase, for a consideration any securities issued by the corporation; • in relation to a listed collective investment scheme, a document issued for the purposes 	2(1)

	of the relevant code or the Listing Rules that (i) offers any interests in the scheme to the public for acquisition for a consideration; (ii) offers the scheme to the public for participation for a consideration; or (iii) is calculated to invite offers by the public to acquire for a consideration any interests, or participate for a consideration, in the scheme.	
Listing Rules	<p>Listing Rules means:</p> <ul style="list-style-type: none"> • the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; or • the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, <p>approved by the Securities and Futures Commission (“SFC”) under section 24 of the Securities and Futures Ordinance (Cap. 571) (“SFO”), and as in force at the material time.</p>	2(1)
professional standard	<p>A professional standard means any of the professional standards within the meaning of section 2 of the Professional Accountants Ordinance (Cap. 50) as in force at the material time (“PAO”) i.e.:</p> <ul style="list-style-type: none"> • statement of professional ethics; or • standards of accounting, auditing and assurance practices, <p>issued or specified or deemed to be issued or specified under section 18A of the PAO.</p>	4(8)
relevant code	<p>A relevant code means:</p> <ul style="list-style-type: none"> • a code or guideline published under section 112ZR of the SFO, as in force at the material time; or 	2(1)

	<ul style="list-style-type: none"> a code or guideline published under section 399 of the SFO for providing guidance in relation to the operation of section 104 of the SFO, as in force at the material time. 	
relevant Ordinance	Relevant Ordinance means the Companies Ordinance (Cap. 32) as in force from time to time before the commencement date of section 2 of Schedule 9 to the Companies Ordinance (Cap. 622) (“CO”) i.e. 3 March 2014.	2(1)
relevant undertaking	<p>A relevant undertaking means:</p> <ul style="list-style-type: none"> in relation to a listed corporation, an undertaking that is, or was at the material time, (i) a subsidiary undertaking, as construed in accordance with the CO, of the corporation, or (ii) an undertaking that is required to be accounted for and consolidated in the accounts, or the next accounts, of the corporation as a subsidiary for the purposes of the standards of accounting practices under section 18A of the PAO as in force at the material time, the International Financial Reporting Standards issued by the International Accounting Standards Board as in force at the material time, the Listing Rules or any generally acceptable accounting principles allowed for usage under the Listing Rules; in relation to a listed collective investment scheme, an undertaking that is, or was at the material time, an undertaking that is required to be accounted for and consolidated in the accounts, or the next accounts, of the scheme as a subsidiary for the purposes of the standards of accounting practices under section 18A of the PAO as in force at the material time, the International Financial Reporting Standards issued by the International Accounting Standards Board as 	2(1)

	in force at the material time, the Listing Rules or any generally acceptable accounting principles allowed for usage under the Listing Rules.	
reporting accountant	<p>A reporting accountant means:</p> <ul style="list-style-type: none"> • in relation to a listed corporation, <ul style="list-style-type: none"> ○ a person appointed for the purposes of paragraph 43 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) (“CWUMPO”), or the Listing Rules, to prepare a specified report required for a listing document issued by or on behalf of the corporation, regardless of whether or not the person is qualified for the appointment; and ○ includes (A) if the person so appointed is an individual, an employee or agent of that person involved in the preparation of the specified report; (B) if the person so appointed is a partnership, a partner, employee or agent of that person involved in the preparation of the specified report; and (C) if the person so appointed is a corporation, a member, director, employee or agent of that person involved in the preparation of the specified report; • in relation to a listed collective investment scheme, <ul style="list-style-type: none"> ○ a person appointed for the purposes of the relevant code or the Listing Rules to prepare a specified report required for a listing document issued by or on behalf of the scheme, regardless of whether or not the person is qualified for the appointment; and ○ includes (A) if the person so appointed is an individual, an employee or agent of that person involved in the preparation of 	2(1)

	<p>the specified report; (B) if the person so appointed is a partnership, a partner, employee or agent of that person involved in the preparation of the specified report; and (C) if the person so appointed is a corporation, a member, director, employee or agent of that person involved in the preparation of the specified report.</p>	
responsible person	<p>A responsible person, in relation to a listed collective investment scheme, means:</p> <ul style="list-style-type: none"> • the manager of the scheme; or • the person appointed as the trustee, or custodian, of the property of the scheme. 	2(1)
specified report	<p>A specified report means:</p> <ul style="list-style-type: none"> • in relation to a prospectus issued by or on behalf of a listed corporation, any report, specified in Part II of the Third Schedule to the CWUMPO, that is required under section 38 or 342 of the CWUMPO to be set out in the prospectus; • in relation to a listing document (other than a prospectus) issued by or on behalf of a listed entity, any report on the profits and losses of, the assets and liabilities of, and other financial information on (i) the entity; or (ii) a business or undertaking to be acquired, or disposed of, by the entity, that is required for inclusion in the listing document issued for the purposes of the relevant code or the Listing Rules. 	2(1)

Purpose of this document

4. The purpose of this Policy Statement is to provide an overview of the legal regime of the investigation function of the AFRC in respect of any audit, or the preparation of any specified report, that was completed for a listed entity before 1 October 2019.

5. For details of the investigation process of the AFRC in relation to such investigations, please refer to the [*“Outline of the AFRC’s Investigation Process \(in relation to audits or the preparation of specified reports completed for listed entities before 1 October 2019\)”*](#), which is available on the AFRC’s website (www.afrc.org.hk).

Objectives of investigation

6. The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accountancy profession is crucial for the business community and is essential for maintaining Hong Kong’s status as an international financial centre. This is particularly the case for auditors of listed entities, as investors may rely upon the audited financial statements of listed entities when making investment decisions.
7. The AFRC regulates through carrying out investigations into the relevant conduct of auditors or reporting accountants. This ensures that auditing or reporting irregularities can be identified and responded to promptly and adequately, so that appropriate follow-up action can be taken. Such follow-up action may include referral to other regulators or law enforcement agencies for conduct falling within their jurisdiction.

Circumstances in which the AFRC may initiate investigations

Circumstances suggesting that there is an auditing irregularity or a reporting irregularity

8. Pursuant to section 23(1) of the 2019 FRCO, if it appears to the AFRC that there are circumstances suggesting that there is an auditing irregularity in relation to a listed entity and the AFRC certifies in writing to that effect, the AFRC may:
 - (a) for the purpose of investigating the irregularity or the question whether or not there is such an irregularity, exercise the powers under sections 25 and 27 and Division 3 of the 2019 FRCO; or
 - (b) in writing, direct the AIB to investigate, with those powers, the irregularity and the question whether or not there is such an irregularity.
9. Pursuant to section 23(2) of the 2019 FRCO, if it appears to the AFRC that there are circumstances suggesting that there is a reporting irregularity in relation to a listed entity, and the AFRC certifies in writing to that effect, the AFRC may:

Section 23(1) of the 2019 FRCO

Section 23(2) of the 2019 FRCO

- (a) for the purpose of investigating the irregularity or the question whether or not there is such an irregularity, exercise the powers under sections 26 and 27 and Division 3 of the 2019 FRCO; or
- (b) in writing, direct the AIB to investigate, with those powers, the irregularity and the question whether or not there is such an irregularity.

Reasonable cause to believe that there is or may be a relevant irregularity

10. Pursuant to section 23(3) of the 2019 FRCO, if the AFRC has reasonable cause to believe, and certifies in writing that it has reasonable cause to believe, that there is or may be a relevant irregularity in relation to a listed entity, the AFRC may:
- (a) for the purpose of investigating the irregularity or the question whether or not there is such an irregularity, exercise the powers under section 28 and Division 3 of the 2019 FRCO; or
 - (b) in writing, direct the AIB to investigate, with those powers, the irregularity and the question whether or not there is such an irregularity.
- Section 23(3) of the 2019 FRCO

Relevant irregularity, auditing irregularity and reporting irregularity

11. The terms relevant irregularity, auditing irregularity and reporting irregularity are defined in section 4 of the 2019 FRCO. In summary, a relevant irregularity means an auditing irregularity or a reporting irregularity.
12. There is an auditing irregularity if, in relation to the audit of certain accounts of a listed entity, a “specified event” has occurred in relation to the auditor of the entity at the material time. The relevant accounts are:
- (a) in the case where the entity was a listed corporation, those accounts a copy of the auditor’s report on which:
 - (i) was sent at the relevant time under section 129G(1) of the relevant Ordinance or section 430 of the CO; or
 - (ii) was issued, circulated, published or distributed at the relevant time for the purposes of the Listing Rules;
 - (b) in the case where the entity was a listed collective investment scheme, those accounts a copy of the auditor’s report on which was issued,
- Section 4 of the 2019 FRCO
- Section 4(2)(a) of the 2019 FRCO
- Section 4(7) of the 2019 FRCO

circulated, published or distributed at the relevant time for the purposes of the relevant code or the Listing Rules.

13. There is a reporting irregularity in relation to a listed entity if, in respect of the preparation of a specified report required for a listing document issued at the relevant time by or on behalf of the entity, a “specified event” has occurred in relation to the reporting accountant of the entity at the material time. Section 4(2)(b) of the 2019 FRCO
14. Under section 4(3) of the 2019 FRCO, a “specified event” has occurred in relation to an auditor or reporting accountant of a listed entity, if the auditor or reporting accountant: Section 4(3) of the 2019 FRCO
- (a) falsified or caused to be falsified a document;
 - (b) made a statement, in respect of a document, that was material and that the auditor or reporting accountant knew to be false or did not believe to be true;
 - (c) has been negligent in the conduct of the auditor or reporting accountant’s profession;
 - (d) has been guilty of professional misconduct; or
 - (e) did or omitted to do something that, were the auditor or reporting accountant an individual certified public accountant, would reasonably be regarded as bringing or likely to bring discredit upon the auditor or reporting accountant, the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) or the accountancy profession;
 - (f) failed or neglected to observe, maintain or otherwise apply a professional standard; or
 - (g) refused or neglected to comply with the provisions of any bylaw or rule made or any direction lawfully given by the Council of the HKICPA.
15. Sections 4(4) to 4(6) of the 2019 FRCO go on to identify certain further circumstances which constitute a “specified event” where the auditor or reporting accountant is a corporate practice, a certified public accountant or a firm of certified public accountants (practising), respectively. Please refer to section 4 of the 2019 FRCO for details. Sections 4(4) to 4(6) of the 2019 FRCO

Powers of investigation

16. As indicated above, the investigator's powers of investigation differ depending on whether the investigation is initiated on grounds of "circumstances suggesting", or "reasonable cause to believe".

Powers where the investigation is initiated on grounds of "circumstances suggesting"

17. If an investigation is initiated on the grounds of "circumstances suggesting", pursuant to sections 25 to 27 of the 2019 FRCO, the investigator may, in writing, require certain persons such as auditors or reporting accountants, listed entities and their current or past officers or employees, authorised institutions or transaction counterparts:

Sections 25 to 27 of the 2019 FRCO

- (a) to produce records or documents;
- (b) to explain or make a statement regarding records or documents produced and to verify their explanation or statement by a statutory declaration;
- (c) to state the whereabouts of any missing records or documents and to verify their statement by a statutory declaration;
- (d) to make copies or record the details of records or documents produced; and
- (e) if an explanation or statement is not given or made for the reason that the information concerned is not within their knowledge or possession, to verify that reason and fact by a statutory declaration.

18. The investigator is required to certify that certain conditions as set out in the 2019 FRCO are satisfied, for example, the investigator has reasonable cause to believe that a person is in possession of records or documents that relate to the audit of the accounts or the preparation of the accountants' report of the listed entity, and the relevant records or documents required to be produced is relevant to the relevant irregularity.

Sections 25 to 27 of the 2019 FRCO

19. Please refer to sections 25 to 27 of the 2019 FRCO for details.

Powers where the investigation is initiated on grounds of "reasonable cause to believe"

20. If an investigation is initiated on grounds of "reasonable cause to believe", pursuant to section 28 of the 2019 FRCO, the investigator may, in writing, require the auditors, reporting accountants or any other persons whom the investigator

Section 28 of the 2019 FRCO

has reasonable cause to believe to be in possession of records, documents or information relevant to the relevant irregularity:

- (a) to produce records or documents;
- (b) to attend interviews and answer questions;
- (c) to respond to written questions;
- (d) to give the investigator all other assistance in connection with the investigation;
- (e) to explain or give further particulars regarding records or documents produced;
- (f) to verify their answer, response, explanation or particulars given under (a) to (e) by a statutory declaration; and
- (g) if an answer, response, explanation or particulars is not given for the reason that the information concerned is not within their knowledge or possession, to verify that reason and fact by a statutory declaration.

21. Please refer to section 28 of the 2019 FRCO for details.

Powers to apply to the magistrate for warrants

22. If a magistrate is satisfied by information on oath laid by the investigator that there are reasonable grounds to suspect that there is, or is likely to be, on premises specified in the information any record or document that may be required to be produced, the magistrate may issue a warrant authorizing a person specified in it to:

Section 34 of
the 2019
FRCO

- (a) enter the premises, if necessary by force, at any time within 7 days; and
- (b) search for, seize and remove any record or document that the person so specified has reasonable cause to believe may be required to be produced.

23. Please refer to section 34 of the 2019 FRCO for details.

Rights of a person on whom a requirement is imposed

24. A person upon whom a requirement is imposed pursuant to sections 27 and 28 of the 2019 FRCO has certain rights.

Right against self-incrimination

25. A person is not excused from complying with a requirement under the 2019 FRCO only on the ground that to do so might tend to incriminate the person. However, if the investigator or an authorized officer requires a person to:
- Section 30 of
the 2019
FRCO
- (a) give an explanation, or make a statement, under section 27 of the 2019 FRCO;
 - (b) give an answer or response to any question under section 28 of the 2019 FRCO; or
 - (c) give an explanation or further particulars under section 28 of the 2019 FRCO,

the investigator or officer shall ensure that the person has first been informed or reminded of the limitations imposed by section 30(2) of the 2019 FRCO on the admissibility in evidence of the requirement and of the explanation, particulars or statement, or the question and the answer or response.

26. Section 30(2) of the 2019 FRCO provides that, if the explanation, particulars or statement, or the answer or response, might tend to incriminate the person, and the person so claims before giving the explanation or particulars, or making the statement, or giving the answer or response, the requirement, as well as the explanation, particulars or statement, or the question and the answer or response, are not admissible in evidence against the person in criminal proceedings other than those in which the person is charged with an offence under section 31 of the 2019 FRCO or under Part V of the Crimes Ordinance (Cap. 200), or for perjury, in respect of the explanation, particulars or statement, or the answer or response.

Right to inspection of records or documents seized

27. If the investigator has taken possession of any record or document during the investigation, the investigator must, subject to any reasonable conditions the investigator imposes as to security, permit any person who would be entitled to inspect the record or document had the investigator not taken possession of it, to
- Section 33 of
the 2019
FRCO

inspect it and to make copies or otherwise record details of it at all reasonable times.

Consequences of non-compliance with requirements

Offences

28. It is important for any person issued with a requirement to comply with it. Failure to do so without reasonable excuse or with intent to defraud amounts to an offence under the 2019 FRCO and is punishable upon conviction by a fine and/or imprisonment. Please refer to section 31 of the 2019 FRCO for a full list of the relevant offences. Section 31 of the 2019 FRCO

Powers of the Court of First Instance

29. If a person fails to comply with a requirement imposed under section 25, 26, 27 or 28 of the 2019 FRCO, the investigator may make an application to the Court of First Instance for inquiry into the failure. On being satisfied that there is no reasonable excuse for the person not to comply with the requirements, the Court of First Instance may: Section 32 of the 2019 FRCO
- (a) order the person to comply with the requirement within the specified period; and
 - (b) punish the person and any other person knowingly involved in the failure, in the same manner as if the person had been guilty of contempt of court.

Interrelation with certain regulatory bodies

Notifying other regulators of the investigation powers being exercisable

30. If the AFRC certifies under section 23 of the 2019 FRCO that it appears to the AFRC that there are circumstances suggesting that there is an auditing or reporting irregularity in relation to a listed entity, or that the AFRC has reasonable cause to believe that there is or may be a relevant irregularity in relation to a listed entity, and the investigation relates to a listed entity which is: Section 24 of the 2019 FRCO
- (a) an authorized institution or, to the AFRC's knowledge, an entity which is a controller of an authorized institution, has as its controller an authorized institution or has a controller that is also a controller of an authorized institution;

- (b) an insurer authorized under the Insurance Ordinance (Cap. 41);
- (c) a licensed person within the meaning of the SFO, or a collective investment scheme authorized under the SFO; or
- (d) an approved trustee within the meaning of the Mandatory Provident Fund Schemes Ordinance (Cap. 485),

the AFRC shall give a written notice to the Monetary Authority, the Insurance Authority, the SFC, or the Mandatory Provident Fund Schemes Authority respectively as the relevant regulator of that entity specifying that the relevant powers under sections 25, 26, 27, 28 and Division 3 of the 2019 FRCO are exercisable for the purpose of investigating the irregularity or the question whether or not there is such an irregularity.

Consulting other regulators before imposing the requirements

31. Similarly, if the person belongs to any of the categories referred to in paragraph 30(a) to (d) above (save that (c) shall refer to a responsible person of the collective investment scheme), the investigator shall not impose a requirement on that person under section 25, 26, or 28 of the 2019 FRCO unless, before doing so, the investigator has consulted the Monetary Authority, the Insurance Authority, the SFC, and the Mandatory Provident Fund Schemes Authority, respectively.

Section 29 of
the 2019
FRCO

Investigation report

32. The investigator will prepare a written investigation report after the completion of the investigation.

Section 35 of
the 2019
FRCO

Opportunity to be heard

33. If the AFRC considers that any person named in the investigation report (“**Named Person**”) would in the event of publication or other disclosure of the report be adversely affected by the publication or disclosure, the investigator shall, before the report is adopted by the AFRC, first give the Named Person a reasonable opportunity of being heard, i.e. an opportunity to make representations.
34. Please refer to the [*“Outline of the AFRC’s Investigation Process \(in relation to audits or the preparation of specified reports completed for listed entities before 1 October 2019\)”*](#), which is available on the AFRC’s website (www.afrc.org.hk) for details in relation to the opportunity to make representations.

Section 35 of
the 2019
FRCO

Further actions

35. The AFRC may, in relation to an investigation under the 2019 FRCO concerning a relevant irregularity: Section 36 of the 2019 FRCO
- (a) close the case without further action;
 - (b) suspend the investigation for such period as the AFRC thinks fit; or
 - (c) carry out such other follow-up action in accordance with the 2019 FRCO as the AFRC thinks fit.

Disclosure of investigation report

36. The AFRC may adopt and publish the whole or any part of the investigation report. Section 35 of the 2019 FRCO
37. In deciding whether to publish an investigation report or any part of it, the AFRC shall take into account:
- (a) whether the publication may adversely affect any of the following proceedings that have been, or are likely to be, instituted:
 - (i) any criminal proceedings before a court or magistrate;
 - (ii) any proceedings before the Market Misconduct Tribunal established by section 251(1) of the SFO;
 - (iii) any proceedings under Part V of the PAO; or
 - (b) whether the publication may adversely affect any person named in the report; and
 - (c) whether the report should be published in the interest of the investing public or in the public interest.

Costs and expenses of investigation

38. If, on a prosecution instituted as a result of an investigation under the 2019 FRCO, a person is convicted by a court or magistrate, the court or magistrate may order the person to pay to the AFRC the sum the court or magistrate considers appropriate for the costs and expenses in relation or incidental to the investigation Section 37 of the 2019 FRCO

reasonably incurred by the AFRC and the AFRC may recover the sum so ordered as a civil debt due to it.

Preservation of secrecy

39. The 2019 FRCO imposes secrecy obligations on the AFRC and any person to whom the AFRC discloses secret information, including any person to whom the AFRC discloses information in the course of an investigation.

Section 51 of
the 2019
FRCO

40. In particular, section 51 of the 2019 FRCO provides that, except in the performance of any function under the 2019 FRCO or for carrying into effect the provisions of the 2019 FRCO, or in the circumstances described in sections 51(2) and (3), the AFRC shall not:

- (a) suffer or permit any person to have access to any matter relating to the affairs of any person that comes to the AFRC's knowledge in the performance of any function under the 2019 FRCO; or
- (b) communicate any such matter to any person other than the person to whom such matter relates.

41. Sections 51(5) and (6) of the 2019 FRCO provide that, where the AFRC discloses information to any person, the person to whom the information is so disclosed, and any other person obtaining or receiving the information from that person, shall not disclose the information to any other person unless:

- (a) the AFRC consents to the disclosure;
- (b) the information has already been made available to the public;
- (c) the disclosure is for the purpose of seeking advice from, or giving advice by, counsel, or a solicitor, or other professional adviser, acting or proposing to act in a professional capacity in connection with any matter arising under the 2019 FRCO;
- (d) the disclosure is in connection with any judicial or other proceedings to which the person is a party; or
- (e) the disclosure is in accordance with an order of a court, magistrate or tribunal, or in accordance with a law or a requirement made under a law.

42. Any person who contravenes the secrecy obligations imposed by section 51 of the 2019 FRCO commits a criminal offence.

Disclaimer

43. This document provides a summary for reference only. It is not legal advice. Persons concerned should seek their own legal advice. In the event of any inconsistency between this document and the 2019 FRCO, the 2019 FRCO shall prevail.

**Document 2E –
Outline of the AFRC’s
Investigation Process
(in relation to audits or the
preparation of specified reports
completed for listed entities
before 1 October 2019)**

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is empowered to initiate an investigation under certain circumstances in relation to auditors or reporting accountants of listed entities in respect of any audit, or the preparation of any specified report, that was completed for a listed entity before 1 October 2019. [For the purposes of any such investigation, the provisions of the Financial Reporting Council Ordinance (Cap. 588) as in force immediately before 1 October 2019 (“**2019 FRCO**”) apply. This is because the [Accounting and Financial Reporting Council (Transitional and Saving Provisions and Consequential Amendments) Regulation] dealing with transitional and savings provisions consequent on the enactment of the Financial Reporting Council (Amendment) Ordinance 2021 (41 of 2021) (the “**2021 Amending Ordinance**”) provide that:
 - (a) For any investigation initiated under Part 3 of the 2019 FRCO before the commencement date of the 2021 Amending Ordinance, the 2019 FRCO continues to apply; and
 - (b) After the commencement date of the 2021 Amending Ordinance, an investigation may still be initiated under Part 3 of the 2019 FRCO in relation to any audit, or the preparation of any specified report, that was completed before 1 October 2019, as if the 2021 Amending Ordinance had not come into operation. For any such investigation, the 2019 FRCO continues to apply.]
2. This document is intended to provide a brief overview of the AFRC’s investigation process, which has been designed to ensure that all persons being investigated are treated fairly and impartially.

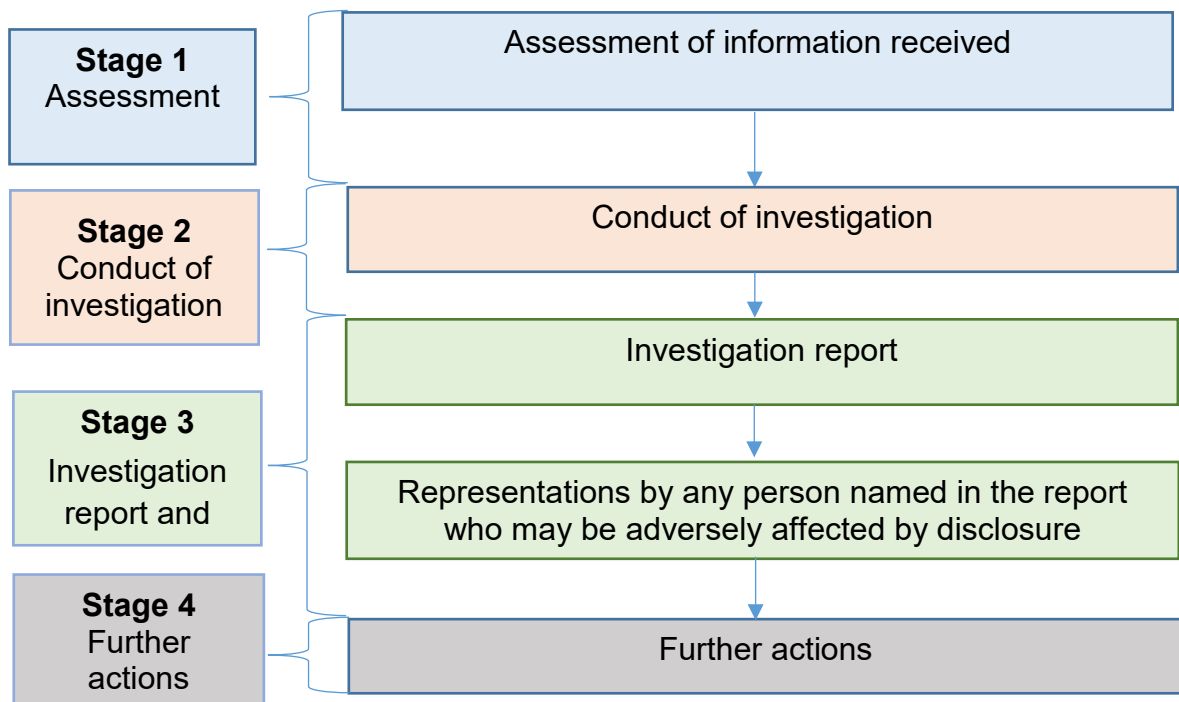
Definitions

3. In this document, the following terms have the meanings defined in the 2019 FRCO as set out below (the definitions in the 2019 FRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the 2019 FRCO	Section under the 2019 FRCO
investigator	An investigator means: <ul style="list-style-type: none"> • the AFRC; or 	21

	<ul style="list-style-type: none"> if the Audit Investigation Board (the “AIB”) established under section 22(1) of the 2019 FRCO is directed to conduct an investigation under section 23(1)(b), 23(2)(b) or 23(3)(b) of the 2019 FRCO concerning an auditing irregularity, a reporting irregularity or a relevant irregularity, the AIB. 	
listed entity	<p>A listed entity means:</p> <ul style="list-style-type: none"> a listed corporation; or a listed collective investment scheme. 	3(1)

Investigation process



Stage 1

Assessment of information received and direction to investigate

- The AFRC acquires information about potential auditing or reporting irregularities from various sources, including complaints from the public, referrals from other regulators, reports from whistleblowers, inspections of practice units, and the

AFRC's own review of the financial statements of listed entities. For more information on lodging whistleblowing reports and complaints to the AFRC, please refer to the AFRC's website (www.afrc.org.hk).

5. The AFRC will assess any such information to determine whether an investigation is warranted by identifying any potential auditing or reporting irregularities and determining whether the evidence meets a relevant threshold for initiating an investigation under the 2019 FRCO. For matters which fall outside the remit of the AFRC, the AFRC may refer them to another appropriate authority.
6. If the AFRC concludes that an investigation is warranted and the evidence meets a relevant threshold for initiating an investigation under the 2019 FRCO, the AFRC will initiate an investigation.
7. Where the AFRC directs the AIB to carry out an investigation, a written direction to investigate will be provided to the AIB.

Stage 2

Conduct of investigation

8. When conducting an investigation, the investigator may exercise the relevant investigation powers under the 2019 FRCO. Such powers include requiring a specified person to produce relevant records and documents, give relevant explanations, attend interviews and answer questions from the investigator, and to give the investigator all other assistance in connection with the investigation, as appropriate.
9. If the investigator requires a person to attend an interview to answer any question that may be raised by the investigator pursuant to the investigator's power under section 28 of the 2019 FRCO, the investigator will notify the relevant person in writing of the time and place of the interview. The interviewee may be accompanied to the interview by his or her legal adviser but must answer any question raised by the investigator directly, and not through his or her legal adviser.
10. For further information as to the investigator's powers, please refer to the ["Investigation Policy Statement \(in relation to audits or the preparation of specified reports completed for listed entities before 1 October 2019\)"](#) which is available on the AFRC's website (www.afrc.org.hk).

11. Any person to whom an investigator discloses information in connection with an investigation, and any other person obtaining or receiving the information from that person, is subject to a strict obligation to preserve the secrecy of the information. Such persons must not disclose the information to any other person unless:
 - (a) the AFRC consents to the disclosure;
 - (b) the information has already been made available to the public;
 - (c) the disclosure is for the purpose of seeking advice from, or giving advice by, counsel, or a solicitor, or other professional adviser, acting or proposing to act in a professional capacity in connection with any matter arising under the 2019 FRCO;
 - (d) the disclosure is in connection with any judicial or other proceedings to which the person is a party; or
 - (e) the disclosure is in accordance with an order of a court, magistrate or tribunal, or in accordance with a law or a requirement made under a law.
12. Any person who discloses information in contravention of the secrecy obligation commits a criminal offence.

Stage 3

(i) Investigation report

13. The investigator will prepare a written investigation report after the completion of the investigation.

(ii) Representations by any person named in the report who may be adversely affected by disclosure

14. If the AFRC considers that any person named in the investigation report (“**Named Person**”) would in the event of a publication or other disclosure of the report be adversely affected by the publication or disclosure, the investigator will, before the report is adopted by the AFRC, first give the Named Person a reasonable opportunity of being heard. This will be done by allowing the Named Person to make representations in respect of the investigation report. The Named Person will be informed of this right when the draft investigation report is sent to them.

15. The Named Person may make such representations to the investigator as they consider appropriate. However, if the Named Person does not agree with the content of the investigation report, they should identify the matters with which they disagree and explain why they disagree. They should further provide any evidence in their possession which may substantiate their representations.
16. If the Named Person fails to take issue with the content of the draft investigation report with which they disagree, it may prejudice their ability to take issue with it at a later date. In particular, any attempt to raise new facts or evidence at a later date (such as during the course of disciplinary proceedings) may call into question their credibility or reliability, because such facts or evidence were not advanced during the investigation.

(iii) Legal representation

17. The Named Person may seek legal advice at any point in the process, including obtaining the assistance of legal advisers to prepare written representations in response to the investigation report.

Stage 4

Further actions

18. The AFRC may, in relation to an investigation under the 2019 FRCO concerning a relevant irregularity:
 - (a) close the case without further action;
 - (b) suspend the investigation for such period as the AFRC thinks fit; or
 - (c) carry out such other follow-up action in accordance with the 2019 FRCO as the AFRC thinks fit.

Cooperation with the AFRC

19. Parties under investigation are expected to cooperate with the AFRC in all its regulatory processes. It is also in the interest of such parties to cooperate with the AFRC at an early stage. This is because cooperation is an important mitigating factor which may be taken into account by the AFRC when determining sanctions in the event any disciplinary action is taken, and may result in the reduction of sanctions. Conversely, uncooperative conduct (such as a failure to comply with any deadlines imposed by the Investigator during the course of the

investigation) may be an aggravating factor which may result in more severe sanctions being imposed.

Disclaimer

20. This document provides a summary of the AFRC's investigation process for reference only. It is not legal advice. Persons concerned should seek their own legal advice. In the event of any inconsistency between this document and the 2019 FRCO, the 2019 FRCO shall prevail.

Document 2F – Enquiry Policy Statement for Listed Entities

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. Under the AFRCO, the AFRC is empowered to initiate an enquiry concerning a relevant non-compliance in relation to a listed entity and to secure the removal of identified relevant non-compliance.

Definitions

3. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
authorized institution	An authorized institution means an authorized institution within the meaning of section 2(1) of the Banking Ordinance (Cap. 155) i.e. <ul style="list-style-type: none"> • a bank; • a restricted licence bank; or • a deposit-taking company. 	2(1)
certified public accountant (“ CPA ”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50) (“ PA Ordinance ”).	2(1)
controller	A controller means a person who is an indirect controller, or a majority shareholder controller, within the meaning of section 2(1) of the Banking Ordinance (Cap. 155)	2(1)
enquirer	An enquirer means: <ul style="list-style-type: none"> • the AFRC; or 	38

	<ul style="list-style-type: none"> the Financial Reporting Review Committee appointed under section 40(1)(b) of the AFRCO (“Review Committee”). 	
listed entity	<p>A listed entity means:</p> <ul style="list-style-type: none"> a listed corporation; or a listed collective investment scheme. 	3(1)
Listing Rules	<p>The Listing Rules mean:</p> <ul style="list-style-type: none"> the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“SEHK”); or the Rules Governing the Listing of Securities on the Growth Enterprise Market of the SEHK, approved by the Securities and Futures Commission (“SFC”) under section 24 of the Securities and Futures Ordinance (Cap. 571) (“SFO”), and as in force at the material time. 	2(1)
operator	<p>An operator means:</p> <ul style="list-style-type: none"> in relation to a listed corporation, the directors of the corporation; in relation to a listed collective investment scheme, the manager of the scheme. 	49(3)
Panel Convenor	<p>A Panel Convenor means one of the Panel Convenors appointed by the Chief Executive from amongst the members of the Financial Reporting Review Panel (“Review Panel”).</p>	39(2)
relevant code	<p>A relevant code means:</p> <ul style="list-style-type: none"> a code or guideline published under section 112ZR of the SFO, as in force at the material time; or a code or guideline published under section 399 of the SFO for providing guidance in 	2(1)

	relation to the operation of section 104 of the SFO, as in force at the material time.	
relevant Ordinance	Relevant Ordinance means the Companies Ordinance (Cap. 32) as in force from time to time before the commencement date of section 2 of Schedule 9 to the Companies Ordinance (Cap. 622) (“CO”) i.e. 3 March 2014.	2(1)
relevant undertaking	<p>A relevant undertaking means:</p> <ul style="list-style-type: none"> • in relation to a listed corporation, an undertaking that is, or was at the material time, (i) a subsidiary undertaking, as construed in accordance with the CO, of the corporation, or (ii) an undertaking that is required to be accounted for and consolidated in the accounts, or the next accounts, of the corporation as a subsidiary for the purposes of the standards of accounting practices under section 18A of the PA Ordinance as in force at the material time, the International Financial Reporting Standards issued by the International Accounting Standards Board as in force at the material time, the Listing Rules or any generally acceptable accounting principles allowed for usage under the Listing Rules; • in relation to a listed collective investment scheme, an undertaking that is, or was at the material time, an undertaking that is required to be accounted for and consolidated in the accounts, or the next accounts, of the scheme as a subsidiary for the purposes of the standards of accounting practices under section 18A of the PA Ordinance as in force at the material time, the International Financial Reporting Standards issued by the International Accounting Standards Board as in force at the material time, the Listing Rules or any generally acceptable accounting 	2(1)

	principles allowed for usage under the Listing Rules.	
Review Committee	<p>A Review Committee means the Financial Reporting Review Committee appointed by the AFRC under section 40(1)(b) of the AFRCO consisting of:</p> <ul style="list-style-type: none"> • a Panel Convenor, who is to be the chairperson of the Review Committee; and • at least 4 other members of the Review Panel. 	40(1)(b)
Review Panel	<p>A Review Panel means the Financial Reporting Review Panel appointed under section 39(1) of the AFRCO i.e. a panel appointed by the Chief Executive, in consultation with the AFRC, consisting of at least 20 persons, whom the Chief Executive considers suitable for appointment under section 40(1)(b) as members of a Review Committee either because of their experience in accounting, auditing, finance, banking, law, administration or management, or because of their professional or occupational experience.</p>	39(1)
specified report	<p>A specified report means:</p> <ul style="list-style-type: none"> • in relation to a prospectus issued by or on behalf of a listed corporation or a corporation seeking to be listed, any report, specified in Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32), that is required under section 38 or 342 of that Ordinance to be set out in the prospectus; • in relation to a listing document (other than a prospectus) issued by or on behalf of a listed corporation or listed collective investment scheme, or a corporation or collective investment scheme seeking to be listed, any report on the profits and losses of, the assets and liabilities of, and other financial 	2(1)

	information on (i) the corporation or scheme or (ii) a business or undertaking to be acquired, or disposed of, by the corporation or scheme, that is required for inclusion in the listing document issued for the purposes of the relevant code or the Listing Rules.	
undertaking	An undertaking includes an unincorporated association carrying on a trade or business (whether or not for profit), a corporation and a partnership.	2(1)

Purpose of this document

4. The purpose of this Policy Statement is to provide an overview of the legal regime of the enquiry function of the AFRC for listed entities.
5. For details of the AFRC's enquiry process, please refer to the [“Outline of the AFRC's Enquiry Process”](#), which is available on the AFRC's website (www.afrc.org.hk).

Objectives of enquiry

6. The AFRC is entrusted with the statutory duty to provide for enquiries into non-compliances with regulatory requirements for financial reports of listed entities. An effective regulatory regime that fosters high quality financial reporting of listed entities is crucial for the capital market and is essential for maintaining Hong Kong's status as an international financial centre.
7. The AFRC regulates through conducting enquiries into potential non-compliance with financial reporting requirements by listed entities. The enquiry process assists to ensure that potential non-compliance with financial reporting requirements in the financial reports of listed entities is identified and rectified, so that investors and other stakeholders are not misled.

Circumstances in which the AFRC may initiate enquiries

8. Pursuant to section 40 of the AFRCO, the AFRC may initiate an enquiry if it appears to the AFRC that there is or may be a question whether or not there is a relevant non-compliance in relation to a listed entity, and the AFRC certifies in writing to that effect.

Section 40 of the AFRCO

9. For the purposes of an enquiry, the enquirer may either be the AFRC or a Review Committee appointed by the AFRC. If the enquirer is a Review Committee, the AFRC must notify the listed entity in writing of the names of the members of the Review Committee.

Relevant non-compliance

10. The term relevant non-compliance is defined in section 5 and Schedule 1 of the AFRCO. For the purposes of the AFRCO generally including initiating an enquiry, there is a relevant non-compliance in relation to a listed entity if a relevant financial report, within the meaning of Part 1 of Schedule 1 of the AFRCO, has not complied with a relevant requirement, within the meaning of Part 1 of Schedule 1 of the AFRCO, that applies to the report.

Section 5 of
the AFRCO

11. A relevant financial report means:

Part 1 of
Schedule 1 of
the AFRCO

- (a) in relation to a listed corporation,
- (i) a balance sheet of the corporation and any accounts annexed to it for the purposes of sections 129C and 129G of the relevant Ordinance;
 - (ii) a copy of the financial statements of the corporation sent under section 430 of the CO;
 - (iii) the accounts of the corporation under section 336 of the relevant Ordinance or section 789 of the CO;
 - (iv) a summary financial report of the corporation sent in compliance with section 141CA of the relevant Ordinance, section 441 or section 444 of the CO;
 - (v) a set of financial statements of the corporation (A) providing information on the results of the operations or cash flows of the corporation in a period of at least 3 months, (B) providing information on the state of affairs of the corporation as at the end of that period, and (C) issued, circulated, published or distributed for the purposes of the Listing Rules; or
 - (vi) a specified report required for a listing document issued by or on behalf of the corporation.

- (b) in relation to a listed collective investment scheme,
 - (i) a set of financial statements of the scheme (A) providing information on the results of the operations or cash flows of the scheme in a period of at least 3 months, (B) providing information on the state of affairs of the scheme as at the end of that period, and (C) issued, circulated, published or distributed for the purposes of the relevant code or the Listing Rules; or
 - (ii) a specified report required for a listing document issued by or on behalf of the scheme.
12. A relevant requirement means an accounting requirement as to the matters or information to be included in the relevant financial report, as provided in:
- (a) the relevant Ordinance or the CO as in force at the material time (applicable for listed corporations only);
 - (b) the standards of accounting practices issued or specified under section 18A of the PA Ordinance;
 - (c) the International Financial Reporting Standards issued by the International Accounting Standards Board;
 - (d) the Listing Rules;
 - (e) any generally acceptable accounting principles allowed for usage under the Listing Rules; or
 - (f) the relevant code (applicable for listed collective investment schemes only).
13. A different definition of relevant non-compliance applies for the purposes of section 50 of the AFRCO, which relates to the powers of the Court of First Instance to secure removal of a relevant non-compliance. Please refer to section 5 and Schedule 1 of the AFRCO for details.

Part 1 of
Schedule 1 of
the AFRCO

Section 5 and
Part 1 of
Schedule 1 of
the AFRCO

Powers of enquiry

Powers of enquirer to issue certain requirements

14. Pursuant to section 43(1) of the AFRCO, an enquirer may, in writing, require certain persons to produce or give, within the time and at the place specified in the requirement, any record or document, or any information or explanation, specified in the requirement. The enquirer may do so if the enquirer has reasonable cause to believe, and certifies in writing that the enquirer has reasonable cause to believe, that the record or document, or the information or explanation, is relevant to the relevant non-compliance or to the question whether or not there is such a non-compliance. Section 43 of the AFRCO
15. The persons upon whom a requirement may be imposed pursuant to section 43 of the AFRCO are: Section 43 of the AFRCO
- (a) where the listed entity is a listed corporation, the listed corporation;
 - (b) where the listed entity is a listed collective investment scheme, a person who is, or was at the material time, a responsible person of the listed collective investment scheme;
 - (c) a relevant undertaking of the listed entity;
 - (d) a person who is, or was at the material time, an auditor of the corporation, scheme or undertaking; or
 - (e) a person who is, or was at the material time, an officer or employee of the corporation, responsible person or undertaking.

Rights of a Specified Person

16. A person upon whom a requirement is imposed pursuant to section 43(1) of the AFRCO (a "**Specified Person**") has certain rights.

Right against self-incrimination

17. A Specified Person is not excused from complying with a requirement to provide information or an explanation only on the ground that to do so might tend to incriminate the Specified Person. However, if an enquirer requires a Specified Person to give any information or explanation, the enquirer must ensure that the Specified Person has first been informed or reminded of the limitations imposed Sections 43(3) and 44 of the AFRCO

by section 44(2) of the AFRCO on the admissibility in evidence of the requirement and of the information or explanation.

18. Section 44(2) of the AFRCO provides that, if the information or explanation might tend to incriminate the Specified Person and the Specified Person so claims before giving the information or explanation, the requirement as well as the information or explanation, are not admissible in evidence against the Specified Person in criminal proceedings other than those in which the Specified Person is charged with an offence which relates to perjury.

Right to inspection of records or documents seized

19. If the enquirer has taken possession of any record or document during the enquiry, the enquirer must, subject to any reasonable conditions the enquirer imposes as to security, permit a Specified Person who would be entitled to inspect the record or document had the enquirer not taken possession of it, to inspect it and to make copies or otherwise record details of it at all reasonable times. Section 46 of the AFRCO

Consequences of non-compliance of the requirements

Powers of the Court of First Instance

20. If a Specified Person fails to comply with a requirement imposed by an enquirer pursuant to section 43(1) of the AFRCO, an enquirer may make an application to the Court of First Instance. On being satisfied that there is no reasonable excuse for the Specified Person not to comply, the Court of First Instance may:
 - (a) order the Specified Person to comply with the requirement within the specified period; and
 - (b) punish the Specified Person and any other person knowingly involved in the failure, in the same manner as if the person had been guilty of contempt of court.Section 45 of the AFRCO

Interrelation with certain regulatory bodies

Notifying other regulators of the powers of enquirer being exercisable

21. If the AFRC certifies that it appears to the AFRC that there is or may be a question whether or not there is a relevant non-compliance in relation to a listed entity that is one of the following: Section 42 of the AFRCO

- (a) an authorized institution or to the AFRC's knowledge, an entity which is a controller of an authorized institution, has as its controller an authorized institution or has a controller that is also a controller of an authorized institution;
- (b) an insurer authorized under the Insurance Ordinance (Cap. 41);
- (c) a licensed person within the meaning of the SFO, or a collective investment scheme authorized under the SFO; or
- (d) an approved trustee within the meaning of the Mandatory Provident Fund Schemes Ordinance (Cap. 485),

the AFRC must give a written notice to the Monetary Authority, the Insurance Authority, the SFC, or the Monetary Provident Fund Schemes Authority respectively as the relevant regulator of that entity specifying that the powers in section 43(1) of the AFRCO are exercisable for the purpose of enquiring into the relevant non-compliance or the question whether or not there is such a non-compliance.

Consulting other regulators before imposing the requirements

22. Similarly, if the Specified Person belongs to any of the categories referred to in paragraphs 21(a) to (d) above (save that (c) shall refer to a responsible person of the collective investment scheme), the enquirer must not impose a requirement under section 43(1) of the AFRCO on that person unless, before doing so, the investigator has consulted the Monetary Authority, the Insurance Authority, the SFC, and the Monetary Provident Fund Schemes Authority respectively. Section 43(2) of the AFRCO

Enquiry report

23. After the completion of the enquiry, the enquirer must prepare a written report on the findings of the enquiry. Section 47 of the AFRCO

Opportunity to be heard

24. If the AFRC considers that any person named in the enquiry report ("**Named Person**") would in the event of publication or other disclosure of the report be adversely affected by the publication or disclosure, the enquirer must, before the report is adopted by the AFRC, first give the Named Person a reasonable opportunity of being heard, i.e. an opportunity to make representations. Section 47 of the AFRCO

25. Please refer to the [“Outline of the AFRC’s Enquiry Process”](#), which is available on the AFRC’s website (www.afrc.org.hk) for details in relation to the opportunity to make representations.

Further actions

26. The AFRC may, in relation to an enquiry after taking into account the enquiry report: Section 48 of the AFRCO
- (a) close the case without further action;
 - (b) suspend the enquiry for such period as the AFRC thinks fit;
 - (c) secure the removal of the non-compliance in accordance with Division 4 of Part 4 of the AFRCO (see paragraphs 27-29 below); or
 - (d) carry out such other follow-up action in accordance with the AFRCO as the AFRC thinks fit.

The AFRC’s powers to secure removal of relevant non-compliance

Giving written notice to the operator of the listed entity

27. After the AFRC has taken into account the enquiry report, if it appears to the AFRC that there is or may be a question whether or not there is a relevant non-compliance, the AFRC may give a written notice (“Notice”) to the operator of the listed entity to: Section 49 of the AFRCO
- (a) indicate the respects in which it appears to the AFRC that such a question arises or may arise;
 - (b) specify such manner of revising the relevant financial report of the listed entity or such other remedial action concerning that report as the AFRC thinks fit; and
 - (c) specify a period for the operator to (i) give a satisfactory explanation of the relevant financial report of the entity, (ii) cause that report to be revised in such manner as specified in the Notice, or (iii) take such other remedial action concerning that report as specified in the Notice.

Applying to the Court of First Instance

28. In respect of a relevant non-compliance as defined in section 5(2) and Part 2 of Schedule 1 of the AFRCO, where the AFRC has given a Notice to the operator of the listed entity and it appears to the AFRC at the end of the period specified in the Notice or such longer period as the AFRC may allow that the directors have not taken the steps specified in the Notice (see paragraph 27(c) above), the AFRC may apply to the Court of First Instance for: Section 50 of the AFRCO
- (a) a declaration that there is a relevant non-compliance in relation to the listed corporation; and
 - (b) an order requiring the directors of the corporation to cause the relevant financial report of the corporation to be revised in such manner as the Court considers necessary, or to take such other remedial action concerning that report as the Court considers necessary within a specified period.
29. Please refer to section 50 of the AFRCO for details.

Disclosure of enquiry report

30. After adopting the enquiry report, the AFRC may publish or disclose the whole or any part of the enquiry report. Section 47 of the AFRCO
31. In deciding whether to publish or disclose an enquiry report or any part of it, the AFRC must take into account:
- (a) whether the publication or disclosure may adversely affect any of the following proceedings that have been, or are likely to be, instituted:
 - (i) any proceedings under Part 3C of the AFRCO relating to reviews and appeals;
 - (ii) any criminal proceedings before a court or magistrate;
 - (iii) any proceedings before the Market Misconduct Tribunal established by section 251(1) of the SFO;
 - (iv) any proceedings under section 41 of the PA Ordinance; or
 - (v) any proceedings before a Disciplinary Committee constituted under section 33(3) of the PA Ordinance as in force immediately before the

commencement date of the Financial Reporting Council (Amendment) Ordinance 2021;

- (b) whether the publication or disclosure may adversely affect any Named Person; and
- (c) whether the publication or disclosure would be in the interest of the investing public or in the public interest.

Preservation of secrecy

- 32. The AFRCO imposes secrecy obligations on the AFRC and any person to whom the AFRC discloses secret information, including any Specified Person to whom the AFRC discloses information in the course of an enquiry. Section 51 of the AFRCO
- 33. In particular, section 51 of the AFRCO provides that, except in the performance of any function under the AFRCO or for carrying into effect the provisions of the AFRCO, or in the circumstances described in sections 51(2) and (3), the AFRC must not:
 - (a) suffer or permit any person to have access to any matter relating to the affairs of any person that comes to the AFRC's knowledge in the performance of any function under the AFRCO; or
 - (b) communicate any such matter to any person other than the person to whom such matter relates.
- 34. Sections 51(5) and (6) of the AFRCO provide that, where the AFRC discloses information to any person, the person to whom the information is so disclosed, and any other person obtaining or receiving the information from that person, must not disclose the information to any other person unless:
 - (a) the AFRC consents to the disclosure;
 - (b) the information has already been made available to the public;
 - (c) the disclosure is for the purpose of seeking advice from, or giving advice by, counsel, or a solicitor, or other professional adviser, acting or proposing to act in a professional capacity in connection with any matter arising under the AFRCO;

- (d) the disclosure is in connection with any judicial or other proceedings to which the person is a party; or
 - (e) the disclosure is in accordance with an order of a court, magistrate or tribunal, or in accordance with a law or a requirement made under a law.
35. Any person who contravenes the secrecy obligations imposed by section 51 of the AFRCO commits a criminal offence.

Disclaimer

36. This document provides a summary for reference only. It is not legal advice. Persons concerned should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 2G – Outline of the AFRC’s Enquiry Process

Introduction

- Under Part 4 of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”), the Accounting and Financial Reporting Council (“**AFRC**”) is given the power to initiate an enquiry concerning a relevant non-compliance as defined under section 5 of the AFRCO in relation to a listed entity.
- This document is intended to provide a brief overview of the AFRC’s enquiry process that applies to all listed entities. For details on the scope of an enquiry, and the AFRC’s enquiry powers, please refer to the [“Enquiry Policy Statement for Listed Entities”](#), which is available on the AFRC’s website (www.afrc.org.hk).

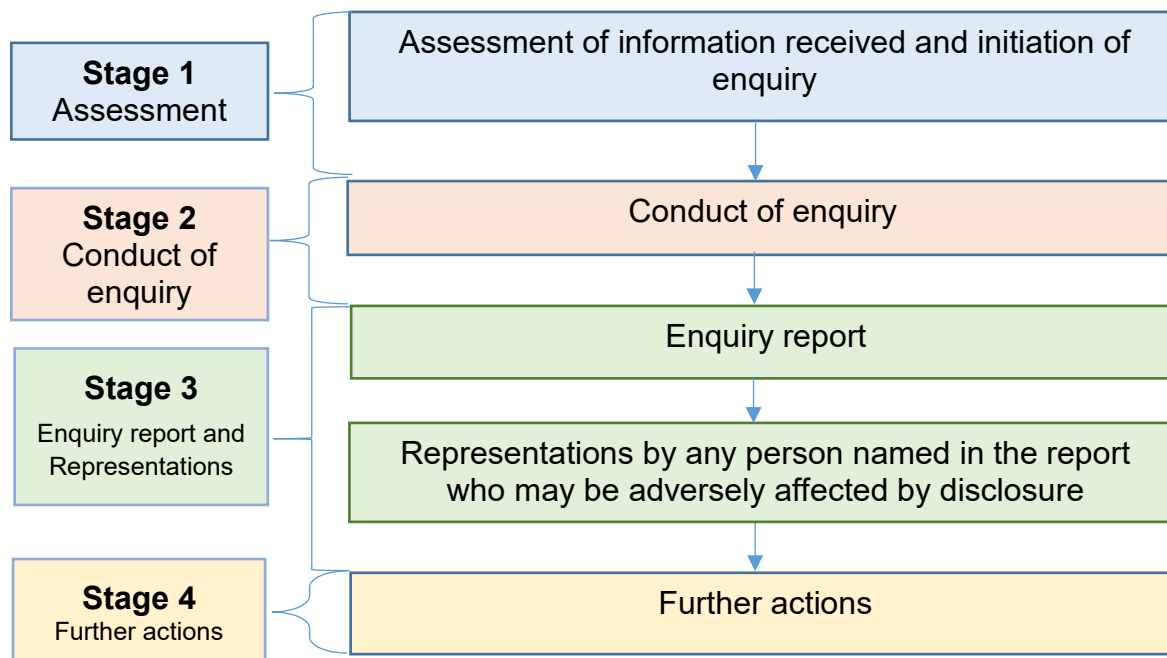
Definitions

- In this document, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
enquirer	An enquirer means: <ul style="list-style-type: none"> the AFRC; or the Financial Reporting Review Committee appointed under section 40(1)(b) of the AFRCO (“Review Committee”). 	38
listed entity	A listed entity means: <ul style="list-style-type: none"> a listed corporation; or a listed collective investment scheme. 	3(1)
relevant non-compliance	A relevant non-compliance means: <ul style="list-style-type: none"> For the purposes of the AFRCO (except section 50), there is a relevant non-compliance in relation to a listed entity if a relevant financial report, within the meaning of Part 1 of Schedule 1 of the AFRCO, of the entity has not complied with a relevant 	5

	<p>requirement, within the meaning of Part 1 of that Schedule, that applies to the report.</p> <ul style="list-style-type: none"> • For the purposes of section 50 of the AFRCO, there is a relevant non-compliance in relation to a listed corporation if a relevant financial report, within the meaning of Part 2 of Schedule 1 of the AFRCO, of the corporation has not complied with a relevant requirement, within the meaning of Part 2 of that Schedule, that applies to the report. 	
Panel Convenor	A Panel Convenor means one of the Panel Convenors appointed by the Chief Executive from amongst the members of the Financial Reporting Review Panel (" Review Panel ").	39(2)
Review Committee	<p>A Review Committee means the Financial Reporting Review Committee appointed by the AFRC under section 40(1)(b) of the AFRCO consisting of:</p> <ul style="list-style-type: none"> • a Panel Convenor, who is to be the chairperson of the Review Committee; and • at least 4 other members of the Review Panel. 	40(1)(b)
Review Panel	A Review Panel means the Financial Reporting Review Panel appointed under section 39(1) of the AFRCO i.e. a panel appointed by the Chief Executive, in consultation with the AFRC, consisting of at least 20 persons, whom the Chief Executive considers suitable for appointment under section 40(1)(b) as members of a Review Committee either because of their experience in accounting, auditing, finance, banking, law, administration or management, or because of their professional or occupational experience.	39(1)

Enquiry process



Stage 1

Assessment of information received and initiation of enquiry

4. The AFRC acquires information about potential non-compliance from various sources, including complaints from the public, referrals from other regulators, reports from whistleblowers, inspections of practice units, and the AFRC's own review of the financial statements of listed entities. For more information on lodging whistleblowing reports and complaints to the AFRC, please refer to the AFRC's website (www.afrc.org.hk).
5. The AFRC will assess any such information to determine whether to initiate an enquiry by identifying any potential non-compliance and determining whether the evidence meets the relevant threshold for initiating an enquiry under the AFRCO. For matters which fall outside the remit of the AFRC, the AFRC may refer them to another specified body.
6. If the AFRC concludes that an enquiry is warranted and the evidence meets the relevant threshold for the purpose of initiating an enquiry under the AFRCO, the AFRC will initiate an enquiry.
7. The AFRC will determine whether the enquiry is to be carried out by the AFRC or a Review Committee. If it is the latter, the AFRC will appoint a Review Committee

as the enquirer and notify the listed entity concerned in writing of the names of the members of the Review Committee.

Stage 2

Conduct of enquiry

8. When conducting an enquiry, the enquirer may exercise its enquiry powers under the AFRCO. Such powers include, among other things, requiring any specified persons to produce relevant records and documents and to provide information and explanations. For further information as to the enquirer's powers, please refer to the "[Enquiry Policy Statement for Listed Entities](#)", which is available on the AFRC's website (www.afrc.org.hk).
9. Any person to whom an enquirer discloses information in connection with an enquiry, and any other person obtaining or receiving the information from that person, is subject to a strict obligation to preserve the secrecy of the information. Such persons must not disclose the information to any other person unless:
 - (a) the AFRC consents to the disclosure;
 - (b) the information has already been made available to the public;
 - (c) the disclosure is for the purpose of seeking advice from, or giving advice by, counsel, or a solicitor, or other professional adviser, acting or proposing to act in a professional capacity in connection with any matter arising under the AFRCO;
 - (d) the disclosure is in connection with any judicial or other proceedings to which the person is a party; or
 - (e) the disclosure is in accordance with an order of a court, magistrate or tribunal, or in accordance with a law or a requirement made under a law.
10. Any person who discloses information in contravention of the secrecy obligation commits a criminal offence.

Stage 3

(i) Enquiry report

11. The enquirer will prepare a written enquiry report on the findings of the enquiry after the enquiry has been completed.

(ii) Representations by any person named in the report who may be adversely affected by disclosure

12. If the AFRC considers that any person named in the enquiry report (“**Named Person**”) would in the event of a publication or other disclosure of the report be adversely affected by the publication or disclosure, the enquirer must, before the report is adopted by the AFRC, first give the Named Person a reasonable opportunity of being heard. This will be done by allowing the Named Person to make representations in respect of the enquiry report. The Named Person will be informed of this right when the enquiry report is sent to the Named Person.

13. The Named Person may make such representations to the enquirer as they consider appropriate. However, if the Named Person does not agree with the content of the enquiry report, they should identify the matters with which they disagree and explain why they disagree. They should further provide any evidence in their possession which may substantiate their representations.

14. The Named Person may seek legal advice at any point in the process, including obtaining the assistance of legal advisers to prepare written representations in response to the enquiry report.

Stage 4

Further actions

15. Pursuant to section 48(1) of the AFRCO, the AFRC may, in relation to the enquiry after taking into account the enquiry report:

(a) close the case without further action;

(b) suspend the enquiry for such period as the AFRC thinks fit;

(c) secure the removal of the non-compliance in accordance with Division 4 of Part 4 of the AFRCO; or

- (d) carry out such other follow-up action in accordance with the AFRCO as the AFRC thinks fit.

Disclaimer

- 16. This document provides a summary of the AFRC's enquiry process for reference only. It is not legal advice. Persons concerned should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.



Section 3: Engagement relating to inspection

With the passage of the Amendment Ordinance 2021, the AFRC will take on the function of conducting inspections of practice units. This will add to the existing inspection functions of the FRC in relation to PIE engagements completed by PIE auditors on or after 1 October 2019.

While the approach of carrying out inspections of practice units will remain largely unchanged, the AFRC's assumption of this function will enhance the strength of the regulatory regime of the accounting profession.

The FRC has prepared the following documents to provide the public with an overview of the legal regime and processes pertaining to its inspection function:

Document No.	Document
3A	Policy Statement for Inspection of PIE Auditors with respect to PIE Engagements
3B	Outline of the AFRC's Inspection Process for PIE Auditors
3C	Policy Statement for Inspection of Practice Units with respect to engagements other than PIE Engagements
3D	Outline of the AFRC's Inspection Process for Practice Units that are not PIE Auditors
3E	Policy Statement for Inspection of Practice Units with respect to compliance with Anti-Money Laundering and Counter-Terrorist Financing Requirements

Document 3A – Policy Statement for Inspection of PIE Auditors with respect to PIE Engagements

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. Under Part 3A of the AFRCO, the AFRC is empowered to carry out inspections in relation to PIE engagements completed by PIE auditors (“**Regulatees**”) on or after 1 October 2019 for the purpose of ascertaining whether the Regulatees have complied with, or are likely to be able to comply with (i) a provision of the AFRCO, or (ii) a professional standard. A PIE auditor is a recognized or registered PIE auditor.
3. Please note that a registered PIE auditor is also a practice unit (as defined in section 2(1) of the AFRCO) and is therefore subject to the AFRC's inspection powers under Part 3AA of the AFRCO (other than any PIE engagements conducted by a registered PIE auditor). For details of the AFRC's policy for inspections of practice units with respect to engagements other than PIE engagements, please refer to the [“Policy Statement for Inspection of Practice Units with respect to engagements other than PIE Engagements”](#), which is available on the AFRC's website (www.afrc.org.hk).

Definitions

4. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
inspector	An inspector means a person appointed as an inspector under section 21A of the AFRCO.	2(1)
Listing Rules	The Listing Rules mean: <ul style="list-style-type: none"> • the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; or • the Rules Governing the Listing of Securities on the Growth Enterprise Market 	2(1)

	of the Stock Exchange of Hong Kong Limited, approved by the Securities and Futures Commission under section 24 of the Securities and Futures Ordinance (Cap. 571), and as in force at the material time.	
public interest entity (“ PIE ”)	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A
PIE engagement	A PIE engagement means any of the following types of engagements for the preparation of: <ul style="list-style-type: none"> • an auditor’s report on a PIE’s financial statements/ annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules or any relevant code; • a specified report required to be included in a listing document for the listing of a corporation’s shares or stocks or for the listing of a collective investment scheme; or • an accountant’s report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition. 	3A; Part 1 of Schedule 1A
professional standard	A professional standard means: <ul style="list-style-type: none"> • any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been issued or specified, under section 18A of the Professional Accountants Ordinance (Cap. 50) (“PA Ordinance”); • any standard on professional ethics, or accounting, auditing or assurance practices, issued or specified by the International 	2(1)

	<p>Accounting Standards Board, the International Auditing and Assurance Standards Board or the International Ethics Standards Board for Accountants;</p> <ul style="list-style-type: none"> • any standard on professional ethics, or accounting, auditing or assurance practices, comparable to those referred to above which is allowed by the Securities and Futures Commission pursuant to the relevant code or by the Hong Kong Exchanges and Clearing Limited pursuant to the Listing Rules; or • any standard on professional ethics, or accounting, auditing or assurance practices, specified in the Listing Rules. 	
quality control system	The quality control system, in relation to a practice unit (as defined in section 2(1) of the AFRCO) or registered PIE auditor, means the policies and procedures established and maintained by the practice unit or auditor to ensure that a PIE engagement carried out by the practice unit or auditor complies with the applicable professional standards and legal and regulatory requirements.	2(1)
recognized PIE auditor	A recognized PIE auditor means an overseas auditor recognized under Division 3 of Part 3, including a Mainland auditor recognized under section 20ZT of the AFRCO.	3A(1)
registered PIE auditor	A registered PIE auditor means a practice unit registered under Division 2 of Part 3.	3A(1)
registered responsible person	<p>A registered responsible person means any of the following individuals whose name is recorded in the PIE auditors register as a responsible person of a registered PIE auditor:</p> <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)

Purpose of this document

5. The purpose of this Policy Statement is to provide an overview of the legal regime of the inspection function of the AFRC for Regulatees.
6. For details of the AFRC's inspection process in relation to PIE auditors, please refer to the [“Outline of the AFRC's Inspection Process for PIE Auditors”](#), which is available on the AFRC's website (www.afrc.org.hk).

Objectives of an inspection

7. The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accountancy profession is crucial for the business community and is essential for maintaining Hong Kong's status as an international financial centre. This is particularly the case for auditors of PIEs, as investors may rely upon the audited financial statements of PIEs when making decisions.
8. Pursuant to section 21B of the AFRCO, the AFRC may direct an inspector to carry out an inspection in relation to the PIE engagements completed by a Regulatee on or after 1 October 2019 for the purpose of ascertaining whether the Regulatee has complied with, or is likely to be able to comply with (i) a provision of the AFRCO, or (ii) a professional standard. Section 21B
of the AFRCO
9. The objectives of an inspection are to monitor and promote audit quality. An inspection focuses on how a Regulatee conducted PIE engagements and on the effectiveness of a Regulatee's quality control system to determine whether the applicable professional standards and legal and regulatory requirements have been complied with.

Circumstances in which inspections may be conducted

10. Pursuant to section 21B of the AFRCO, an inspection may be carried out by the AFRC in relation to the PIE engagements completed by a Regulatee on or after 1 October 2019 to ascertain whether the Regulatee has complied with, or is likely to be able to comply with: Section 21B
of the AFRCO
 - (a) a provision of the AFRCO; or
 - (b) a professional standard.

11. Pursuant to section 2(1) of the AFRCO, professional standards include but are not limited to any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been issued or specified, under section 18A of the PA Ordinance. Professional standards include the “Code of Ethics for Professional Accountants” published by The Hong Kong Institute of Certified Public Accountants, which contains the “Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants”. Section 2(1)
of the AFRCO
12. The AFRC may specify that an inspection is for the purpose of ascertaining compliance with a particular professional standard(s).
13. The AFRC may also determine the practices and procedures to be followed for the inspection.
14. Pursuant to section 21E of the AFRCO, the AFRC may require a Regulatee to provide various information for: Section 21E
of the AFRCO
 - (a) determining the frequency of inspections;
 - (b) specifying the professional standard(s) the compliance with which is/are to be ascertained in an inspection; or
 - (c) determining the practices and procedures to be followed for the inspection.

Powers of an inspector

15. Pursuant to section 21C of the AFRCO, an inspector has the power to, at any reasonable time: Section 21C
of the AFRCO
 - (a) enter any business premises of a Regulatee;
 - (b) inspect, and make copies or record details of any record or document related to the PIE engagement(s) under inspection;
 - (c) make inquiries of a Regulatee, or any person whom the inspector has reasonable cause to believe to have the information being sought or to be in possession of any record or document being sought (if such information, record or document cannot be obtained from the Regulatee), concerning (i) the abovementioned record and document, or (ii) an activity that was carried out in the course of or may affect the PIE engagement(s).

16. An inspector may require a Regulatee or any person whom the inspector has reasonable cause to believe to have the information being sought or to be in possession of any record or document being sought (if such information, record or document cannot be obtained from the Regulatee), to (i) give access to the record or document requested, (ii) produce to the inspector within the time and at the place specified the record or document requested, or (iii) answer any question regarding such record or document, or an activity that was carried out in the course of or may affect the PIE engagement(s). An inspector may also, by written notice, require the person to verify his answers by a statutory declaration within the time specified. Section 21C of the AFRCO
17. For the purpose of ensuring compliance, an inspector is also empowered under the AFRCO to seek the necessary orders from the Court of First Instance (section 32), and to obtain a Magistrate's warrant (section 34). Sections 32 and 34 of the AFRCO
18. Regulatees shall cooperate with the AFRC in all its regulatory processes, including the inspection process, and to comply with any specified requirements of the AFRCO imposed by the inspector pursuant to sections 21C and 21D of the AFRCO. Section 21F of the AFRCO sets out various offences for failure to comply in an inspection process. Sections 21C and 21D of the AFRCO
Section 21F of the AFRCO

Inspection report

19. At the conclusion of an inspection, an inspector is required by section 21G of the AFRCO to prepare and submit to the AFRC a written report. If required by the AFRC, an inspector must also prepare and submit to the AFRC a written report at any other stage of the inspection. Section 21G of the AFRCO
20. Before submitting an inspection report to the AFRC, the inspector must send a dated draft of the report to (i) the Regulatee concerned, and (ii) any other person(s) named in the draft report, and give them a reasonable opportunity of being heard. Please refer to the [“Outline of the AFRC’s Inspection Process for PIE Auditors”](#), which is available on the AFRC’s website (www.afrc.org.hk) for details in relation to the opportunity of being heard. Section 21G of the AFRCO
21. After submitting the inspection report to the AFRC, the inspector will send the same to (i) the Regulatee concerned, and (ii) any other person(s) named in the report. Section 21G of the AFRCO

Follow-up action

22. Pursuant to section 21H, the AFRC may, having regard to an inspection report in relation to a Regulatee:

Section 21H
of the AFRCO

- (a) decide no follow-up action is required;
- (b) require a Regulatee (or a registered responsible person, if applicable) to take a measure or corrective action regarding compliance with a provision of the AFRCO or a professional standard in relation to the Regulatee;
- (c) direct an inspector to carry out a further inspection under Part 3A Division 2 of the AFRCO;
- (d) initiate an investigation under Part 3A Division 3 of the AFRCO in relation to a Regulatee (or a registered responsible person, if applicable); or
- (e) impose a sanction on, or take an action in relation to a Regulatee (or a registered responsible person, if applicable) under sections 37D, 37E, 37F or 37I(1) of the AFRCO.

23. The AFRC may also, having regard to an inspection report in relation to a Regulatee, take any other follow-up action in accordance with the AFRCO that the AFRC considers appropriate.

Section 21H
of the AFRCO

Disclaimer

24. This document provides a summary for reference only. It is not legal advice. Regulatees should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 3B – Outline of the AFRC’s Inspection Process for PIE Auditors

Introduction

1. Under Part 3A of the Accounting and Financial Reporting Council Ordinance (Cap. 588) ("**AFRCO**"), the Accounting and Financial Reporting Council ("**AFRC**") is empowered to carry out inspections in relation to PIE engagements completed by PIE auditors ("**Regulatees**") on or after 1 October 2019 for the purpose of ascertaining whether the Regulatees have complied with, or are likely to be able to comply with (i) a provision of the AFRCO, or (ii) a professional standard. A PIE auditor is a recognized or registered PIE auditor.
2. Under Part 3AA of the AFRCO, the AFRCO is empowered to carry out inspections in relation to practice units for the purpose of determining whether the practice units have observed, maintained or applied a PAO professional standard(s).
3. A registered PIE auditor is also a practice unit and is therefore subject to the AFRC's inspection powers under both Parts 3A and 3AA of the AFRCO.
4. Pursuant to section 2(1) of the AFRCO, professional standards include PAO professional standards. Professional standards include the "Code of Ethics for Professional Accountants" published by The Hong Kong Institute of Certified Public Accountants, which contain the "Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants" ("**AML/CTF Guidelines**"). Therefore, inspections under both Parts 3A and 3AA of the AFRCO may consider compliance with the AML/CTF Guidelines.
5. For information about the AFRC's inspection powers, please refer to the AFRC's (i) "[Policy Statement for Inspection of PIE Auditors with respect to PIE Engagements](#)"; (ii) "[Policy Statement for Inspection of Practice Units with respect to engagements other than PIE Engagements](#)"; and (iii) "[Policy Statement for Inspection of Practice Units with respect to compliance with Anti-Money Laundering and Counter-Terrorist Financing Requirements](#)" which are available on the AFRC's website (www.afrc.org.hk).
6. This document is intended to provide a brief overview of the AFRC's process for inspections under both Parts 3A and 3AA of the AFRCO in relation to Regulatees, which has been designed to ensure that all Regulatees are treated fairly and impartially.
7. For an outline of the AFRC's inspection process in relation to practice units that are not registered PIE auditors, please refer to the "[Outline of the AFRC's Inspection Process for Practice Units that are not PIE Auditors](#)", which is available on the AFRC's website (www.afrc.org.hk).

Definitions

8. In this document, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

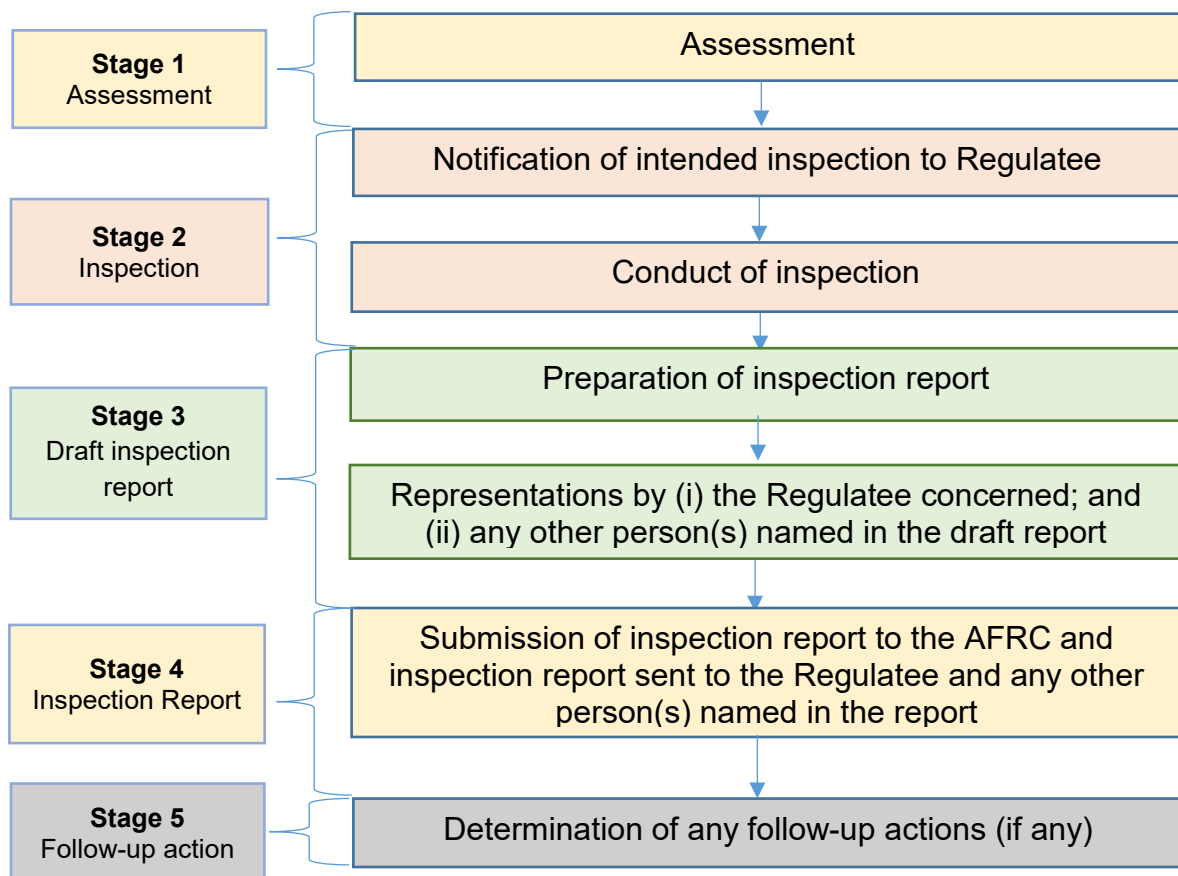
Terms	Meanings defined in the AFRCO	Section under the AFRCO
certified public accountant (“CPA”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50) (“PA Ordinance”).	2(1)
CPA firm	A CPA firm means: <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or • a firm of CPAs (practising) that practises accountancy in partnership and is registered under Division 2 of Part 2A of the AFRCO. 	2(1)
CPA inspector	An CPA inspector means a person appointed as a CPA inspector under section 20ZZA of the AFRCO.	2(1)
certified public accountant (practising) (“CPA (practising)”)	A CPA (practising) means a CPA holding a practising certificate.	2(1)
corporate practice	A corporate practice means a company registered as a corporate practice under Division 3 of Part 2A of the AFRCO.	2(1)
PAO professional standard	A PAO professional standard means any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been	2(1)

	issued or specified, under section 18A of the PA Ordinance.	
inspector	An inspector means a person appointed as an inspector under section 21A of the AFRCO.	2(1)
Listing Rules	<p>The Listing Rules mean:</p> <ul style="list-style-type: none"> • the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; or • the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, <p>approved by the Securities and Futures Commission under section 24 of the Securities and Futures Ordinance (Cap. 571), and as in force at the material time.</p>	2(1)
public interest entity (“ PIE ”)	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A
PIE engagement	<p>A PIE engagement means any of the following types of engagements for the preparation of:</p> <ul style="list-style-type: none"> • an auditor’s report on a PIE’s financial statements/ annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules or any relevant code; • a specified report required to be included in a listing document for the listing of a corporation’s shares or stocks or for the listing of a collective investment scheme; or • an accountant’s report required under the Listing Rules to be included in a circular 	3A; Part 1 of Schedule 1A

	issued by a PIE for a reverse takeover or a very substantial acquisition.	
professional standard	<p>A professional standard means:</p> <ul style="list-style-type: none"> • any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been issued or specified, under section 18A of the PA Ordinance; • any standard on professional ethics, or accounting, auditing or assurance practices, issued or specified by the International Accounting Standards Board, the International Auditing and Assurance Standards Board or the International Ethics Standards Board for Accountants; • any standard on professional ethics, or accounting, auditing or assurance practices, comparable to those referred to above which is allowed by the Securities and Futures Commission pursuant to the relevant code or by the Hong Kong Exchanges and Clearing Limited pursuant to the Listing Rules; or • any standard on professional ethics, or accounting, auditing or assurance practices, specified in the Listing Rules. 	2(1)
quality control system	The quality control system, in relation to a practice unit (as defined in section 2(1) of the AFRCO) or registered PIE auditor, means the policies and procedures established and maintained by the practice unit or auditor to ensure that a PIE engagement carried out by the practice unit or auditor complies with the applicable professional standards and legal and regulatory requirements.	2(1)
practice unit	<p>A practice unit means:</p> <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own 	2(1)

	<p>account under the accountant's own name as registered under section 22(2) of the PA Ordinance;</p> <ul style="list-style-type: none"> • a CPA firm; or • a corporate practice. 	
recognized PIE auditor	A recognized PIE auditor means an overseas auditor recognized under Division 3 of Part 3, including a Mainland auditor recognized under section 20ZT of the AFRCO.	3A(1)
registered PIE auditor	A registered PIE auditor means a practice unit registered under Division 2 of Part 3.	3A(1)

Inspection process



Stage 1

Assessment

9. The AFRC will conduct inspections from time to time. When deciding whether to inspect a particular Regulatee in any particular year, and the ambit of the inspection to be carried out, the AFRC will consider, amongst other things:
- (a) the AFRC's assessment of the risks associated with the Regulatee's practice based on available information (including the results of any prior inspection);
 - (b) the size of the Regulatee, including but not limited to the number of clients and practising partners or directors of the Regulatee during the period;
 - (c) the complexity of the practice and the engagements of the Regulatee;
 - (d) the Regulatee's regulatory history;
 - (e) the period of time since the Regulatee was last inspected by the AFRC;
 - (f) the level of public interest involved in the Regulatee's PIE engagements and engagements that may be subject to inspection under Part 3AA of the AFRCO; and/or
 - (g) the AFRC's available resources.
10. For the AFRC's determination of the frequency of inspection, the AFRC may from time to time require a Regulatee to provide various information, including but not limited to:
- (a) the number of PIE engagements that the Regulatee has undertaken or carried out within a specified period;
 - (b) the full name of the PIEs that have appointed the Regulatee to undertake PIE engagements; or
 - (c) any other information relating to the Regulatee.

Stage 2

- (i) Notification of intended inspection to the Regulatee

11. The AFRC has the power to appoint, in writing, an employee of the AFRC, or any other person with the consent of the Financial Secretary, as an inspector or CPA inspector for the purposes of the AFRCO. An employee of the AFRC or any other person with the consent of the Financial Secretary may be appointed under Part 3A of the AFRCO (as an inspector) and/or Part 3AA of the AFRCO (as a CPA

inspector), to conduct inspections (in respect of PIE engagements or otherwise, as the case may be).

12. Before the start of an inspection, an inspector (or CPA inspector, as the case may be) will notify the Regulatee in writing of the time the AFRC plans to conduct the inspection.
13. An inspector (or CPA inspector, as the case may be) may also request the Regulatee to provide certain basic information to assist in planning the inspection, including but not limited to information about the PIE engagements conducted by the Regulatee, the personnel performing the PIE engagements, and the Regulatee's quality control system.
14. The inspection may be conducted in phases if the AFRC considers it necessary in the circumstances, and an inspector (or CPA inspector, as the case may be) will notify the Regulatee accordingly.

(ii) Conduct of inspection

15. The inspection will normally be conducted by way of an onsite inspection. The inspection fieldwork will be carried out at a reasonable time (usually during office hours), and at the Regulatee's registered office or other registered place of business. It is expected that the inspector (or CPA inspector, as the case may be) will be provided with adequate office facilities and the Regulatee's assistance to enable the inspection to be performed effectively and efficiently.
16. The Regulatee shall comply with their statutory duties and fully cooperate with the AFRC at all times during the inspection, including but not limited to:

For an inspection in relation to a PIE engagement under Part 3A of the AFRCO

- (a) giving access to the records or documents requested by the inspector;
- (b) producing to the inspector within the time and at the place specified the records or documents requested by the inspector; and
- (c) answering any question regarding records or documents, or any activity that was carried out in the course of, or which may affect, the PIE engagement(s).

For an inspection in relation to practice unit under Part 3AA of the AFRCO

- (a) produce or give access to the CPA inspector any specified document in such person's possession or control that the CPA inspector has reasonable cause to believe to be relevant to the inspection;
- (b) give the CPA inspector such explanation or particulars in respect of the specified document required; and

- (c) give the CPA inspector all assistance in connection with the inspection that such person is reasonably able to give.

Stage 3

(i) Preparation of inspection report

- 17. At the conclusion of an inspection, the inspector (or CPA inspector, as the case may be) will prepare an inspection report, which will be submitted to the AFRC (see Stage 4, paragraph 22). If required by the AFRC, the inspector (or CPA inspector, as the case may be) will prepare an inspection report at any other stage of the inspection and submit the report to the AFRC.

(ii) Representations by the (i) Regulatee and (ii) Other Named Persons

- 18. The inspector (or CPA inspector, as the case may be) must give the Regulatee and any other person(s) named in a draft inspection report (the "**Other Named Persons**") a reasonable opportunity to be heard in respect of the matters set out in the draft inspection report, before inspection report is submitted to the AFRC. This will be done by allowing the Regulatee to make representations in respect of the draft inspection report. The Regulatee and any Other Named Persons will be informed of this right when the draft inspection report is sent to them for this purpose.
- 19. Under normal circumstances, the Regulatee and any Other Named Persons will be given 21 days to make any representations in writing. However, if the Regulatee or any Other Named Persons considers it necessary to make oral representations, they may request a meeting with the inspector (or CPA inspector, as the case may be). Such a meeting will only be held if the inspector (or CPA inspector, as the case may be) considers fairness in the circumstances requires it.
- 20. The Regulatee and any Other Named Persons may make such representations to the inspector (or CPA inspector, as the case may be) as they consider appropriate. However, if the Regulatee or any Other Named Persons does not agree with the contents set out in the draft inspection report, they should identify the matters with which they disagree and explain why they disagree. They should further provide any evidence in their possession which may substantiate their representations.

Stage 4

Submission of inspection report

- 21. When all representations have been received or the deadline for making representations has otherwise passed, the inspector (or CPA inspector, as the case may be) will consider any representations from the Regulatee and any Other Named Persons which have been submitted. The inspector (or CPA inspector,

as the case may be) may modify the draft inspection report in the light of such representations.

22. The inspector (or CPA inspector, as the case may be) shall then finalise the inspection report, and submit the final inspection report to the AFRC. After submission, the inspector (or CPA inspector, as the case may be) will send the final inspection report to the Regulatee and any Other Named Persons.
23. If it is necessary, the Regulatee will be asked to make a proposal to the AFRC in respect of the remedial actions the Regulatee intends to take in response to the inspection report.

Stage 5

Follow-up actions

24. Having regard to the final inspection report, and the Regulatee's proposed remedial actions (if any), the AFRC will determine whether to take any follow-up actions under section 21H of Part 3A and/or section 20ZZE of Part 3AA of the AFRCO (and if so what actions to take).

Disclaimer

25. This document provides a summary for reference only. It is not legal advice. Regulatees should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 3C – Policy Statement for Inspection of Practice Units

**with respect to engagements other
than PIE Engagements**

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. Under Part 3AA Division 2 of the AFRCO, the AFRC is empowered to carry out inspections in relation to a practice unit (“**Regulatee**”) for the purpose of determining whether the Regulatee has observed, maintained or applied PAO professional standards.
3. Please note that a registered PIE auditor is also a practice unit (hence a Regulatee). However, it should be noted that the AFRC has separate powers of inspection under Part 3A of the AFRCO in relation to “PIE engagements” (as defined in section 3A(1) of the AFRCO), and this Policy Statement is not applicable to such inspections. For details of the AFRC's policy for inspections in relation to PIE auditors with respect to PIE engagements, please refer to the [“Policy Statement for Inspection of PIE Auditors with respect to PIE Engagements”](#), which is available on the AFRC's website (www.afrc.org.hk).

Definitions

4. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
certified public accountant (“ CPA ”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50) (“ PA Ordinance ”).	2(1)
CPA firm	A CPA firm means: <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or 	2(1)

	<ul style="list-style-type: none"> a firm of CPAs (practising) that practises accountancy in partnership and is registered under Division 2 of Part 2A of the AFRCO. 	
CPA inspector	An CPA inspector means a person appointed as a CPA inspector under section 20ZZA of the AFRCO.	2(1)
certified public accountant (practising) (“CPA (practising)”)	A CPA (practising) means a CPA holding a practising certificate.	2(1)
corporate practice	A corporate practice means a company registered as a corporate practice under Division 3 of Part 2A of the AFRCO.	2(1)
PAO professional standard	A PAO professional standard means any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been issued or specified, under section 18A of the PA Ordinance.	2(1)
public interest entity (“PIE”)	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE engagement	<p>A PIE engagement means any of the following types of engagements for the preparation of:</p> <ul style="list-style-type: none"> an auditor’s report on a PIE’s financial statements/ annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules (as defined in section 2(1) of the AFRCO) or any relevant code; a specified report required to be included in a listing document for the listing of a 	3A; Part 1 of Schedule 1A

	<p>corporation's shares or stocks or for the listing of a collective investment scheme; or</p> <ul style="list-style-type: none"> an accountant's report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition. 	
practice unit	<p>A practice unit means:</p> <ul style="list-style-type: none"> a CPA (practising) who practises accountancy on the accountant's own account under the accountant's own name as registered under section 22(2) of the PA Ordinance; a CPA firm; or a corporate practice. 	2(1)
professional person	<p>A professional person means a CPA or a practice unit.</p>	2(1)
registered PIE auditor	<p>A registered PIE auditor means a practice unit registered under Division 2 of part 3.</p>	3A(1)

Purpose of this document

- The purpose of this Policy Statement is to provide an overview of the legal regime of the inspection function of the AFRC for Regulatees, under Part 3AA Division 2 of the AFRCO.
- For details of the AFRC's inspection process in relation to practice units that are not PIE auditors, please refer to the ["Outline of the AFRC's Inspection Process for Practice Units that are not PIE Auditors"](#), which is available on the AFRC's website (www.afrc.org.hk).

Objectives of an inspection

- The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accountancy profession is crucial for the business community and is essential for maintaining Hong Kong's status as an international financial centre.

8. The AFRC may direct a CPA inspector to carry out an inspection in relation to a Regulatee for the purpose of determining whether the Regulatee has observed, maintained or applied a specified PAO professional standard. The objectives of such inspections are to monitor and promote the quality of professional accounting work in Hong Kong, by ensuring Regulatees are acting in accordance with PAO professional standards.

Circumstances in which inspections may be conducted

9. Pursuant to section 20ZZB(1)(a) and (1)(b) of the AFRCO, the AFRC may specify a PAO professional standard in relation which an inspection is to be carried out, and direct a CPA inspector to carry out an inspection in relation to a Regulatee for the purpose of determining whether the Regulatee has observed, maintained or applied the PAO professional standard. Pursuant to section 2(1) of the AFRCO, a PAO professional standard means any statement of professional ethics, standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been issued or specified, under section 18A of the PA Ordinance. PAO standards include the “Code of Ethics for Professional Accountants” published by The Hong Kong Institute of Certified Public Accountants, which contains the “Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants”.
Section 20ZZB of the AFRCO
Section 2(1) of the AFRCO
10. An inspection may cover specific aspects of an engagement of a Regulatee, or the system of quality control and practice of a Regulatee generally.
11. Pursuant to section 20ZZB(1)(c) of the AFRCO, the AFRC may also determine the practices and procedures to be followed for the inspection.
Section 20ZZB of the AFRCO

Powers of a CPA inspector

12. Pursuant to section 20ZZC of the AFRCO, a CPA inspector has the power to require a specified person (a "**Specified Person**") to:
Section 20ZZC of the AFRCO
 - (a) produce to the CPA inspector, or give the CPA inspector access to, within the time and at the place specified in the requirement, any specified document in their possession or under their control, that the CPA inspector has reasonable cause to believe to be relevant to the inspection (a "**required document**");
 - (b) give to the CPA inspector such explanation or further particulars in respect of the required document as the CPA inspector specifies; and

- (c) give to the CPA inspector all assistance in connection with the inspection that the Specified Person is reasonably able to give.
13. A CPA inspector may also inspect, examine or make copies of a required document, and take any abstract of, or extract from, a required document. [Section 20ZZC of the AFRCO](#)
14. A Specified Person is any of the following persons, whom the CPA inspector has reasonable cause to believe to be in possession of, or in control of, a required document: [Section 20ZZC of the AFRCO](#)
- (a) if the practice unit to which the inspection relates is a CPA (practising) who practises accountancy on the accountant's own account, that accountant;
- (b) if the practice unit to which the inspection relates is a firm of CPA (practising) or a corporate practice, a certified public accountant working in the practice unit; and
- (c) any person who is employed by, or whose services are engaged by, the practice unit to which the inspection relates.
15. A specified document means any record or document specified by the CPA inspector, or any record or document that is of a class or description specified by a CPA inspector. [Section 20ZZC of the AFRCO](#)
16. Regulatees shall cooperate with the AFRC in all of its regulatory processes, including the inspection process, and to comply with any requirements imposed by a CPA inspector under section 20ZZC of the AFRCO. A failure on the part of a professional person without reasonable excuse to comply with a requirement imposed under section 20ZZC constitutes a professional irregularity under section 3B of the AFRCO, and may result in the imposition of disciplinary sanctions. [Section 3B of the AFRCO](#)

Inspection report

17. At the conclusion of an inspection, a CPA inspector is required by section 20ZZD of the AFRCO to prepare and submit to the AFRC a written report. If required by the AFRC, a CPA inspector must also prepare and submit to the AFRC a written report at any other stage of the inspection. [Section 20ZZD of the AFRCO](#)
18. Before submitting an inspection report to the AFRC, the CPA inspector must send a dated draft of the report to (i) the Regulatee concerned and (ii) any other [Section 20ZZD of the AFRCO](#)

person(s) named in the draft report, and give them a reasonable opportunity of being heard. Please refer to the [“Outline of the AFRC’s Inspection Process for Practice Units that are not PIE Auditors”](#), which is available on the AFRC’s website (www.afrc.org.hk), for details in relation to the opportunity of being heard.

19. After submitting the inspection report to the AFRC, the CPA inspector will send the same to (i) the Regulatee concerned, and (ii) any other person(s) named in the report.

Section 20ZZD
of the AFRCO

Follow-up action

20. Pursuant to section 20ZZE, the AFRC may, having regard to an inspection report in relation to a Regulatee:
- (a) decide no follow-up action is required;
 - (b) require a Regulatee to take a measure or corrective action regarding compliance with a PAO professional standard;
 - (c) direct a CPA inspector to carry out a further inspection under Part 3AA Division 2 of the AFRCO;
 - (d) initiate an investigation under section 20ZZH of the AFRCO; or
 - (e) impose a sanction on, or take an action in relation to, the Regulatee or any CPA to which the inspection relates under sections 37CA or 37I(1A) of the AFRCO.

Section 20ZZE
of the AFRCO

Disclaimer

21. This document provides a summary for reference only. It is not legal advice. Regulatees should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 3D – Outline of the AFRC’s Inspection Process for Practice Units that are not PIE Auditors

Introduction

1. Under Part 3AA of the Accounting and Financial Reporting Council Ordinance (Cap. 588) ("**AFRCO**"), the Accounting and Financial Reporting Council ("**AFRC**") is empowered to carry out inspections in relation to practice units ("**Regulatees**") for the purpose of determining whether the Regulatees have observed, maintained or applied a PAO professional standard(s).
2. Pursuant to section 2(1) of the AFRCO, PAO professional standards include the "Code of Ethics for Professional Accountants" published by The Hong Kong Institute of Certified Public Accountants, which contain the "Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants" ("**AML/CTF Guidelines**"). Therefore, inspections under Part 3AA of the AFRCO may consider compliance with the AML/CTF Guidelines.
3. For information about the AFRC's inspection powers, please refer to the AFRC's (i) "[Policy Statement for Inspection of Practice Units with respect to engagements other than PIE Engagements](#)"; and (ii) "[Policy Statement for Inspection of Practice Units with respect to compliance with Anti-Money Laundering and Counter-Terrorist Financing Requirements](#)", which are available on the AFRC's website (www.afrc.org.hk).
4. This document is intended to provide a brief overview of the AFRC's inspection process for inspections under Part 3AA of the AFRCO in relation to Regulatees, which has been designed to ensure that all Regulatees other than PIE auditors, are treated fairly and impartially.
5. Please note that a registered PIE auditor is also a practice unit (hence a Regulatee). However, it should be noted that the AFRC has separate powers of inspection under Part 3A of the AFRCO in relation to "PIE engagements" (as defined in section 3A(1) of the AFRCO). This Outline is not applicable to the PIE engagements conducted by PIE auditors. For an outline of the inspection process in relation to such PIE auditors, please refer to the "[Outline of the AFRC's Inspection Process for PIE Auditors](#)", which is available on the AFRC's website (www.afrc.org.hk).

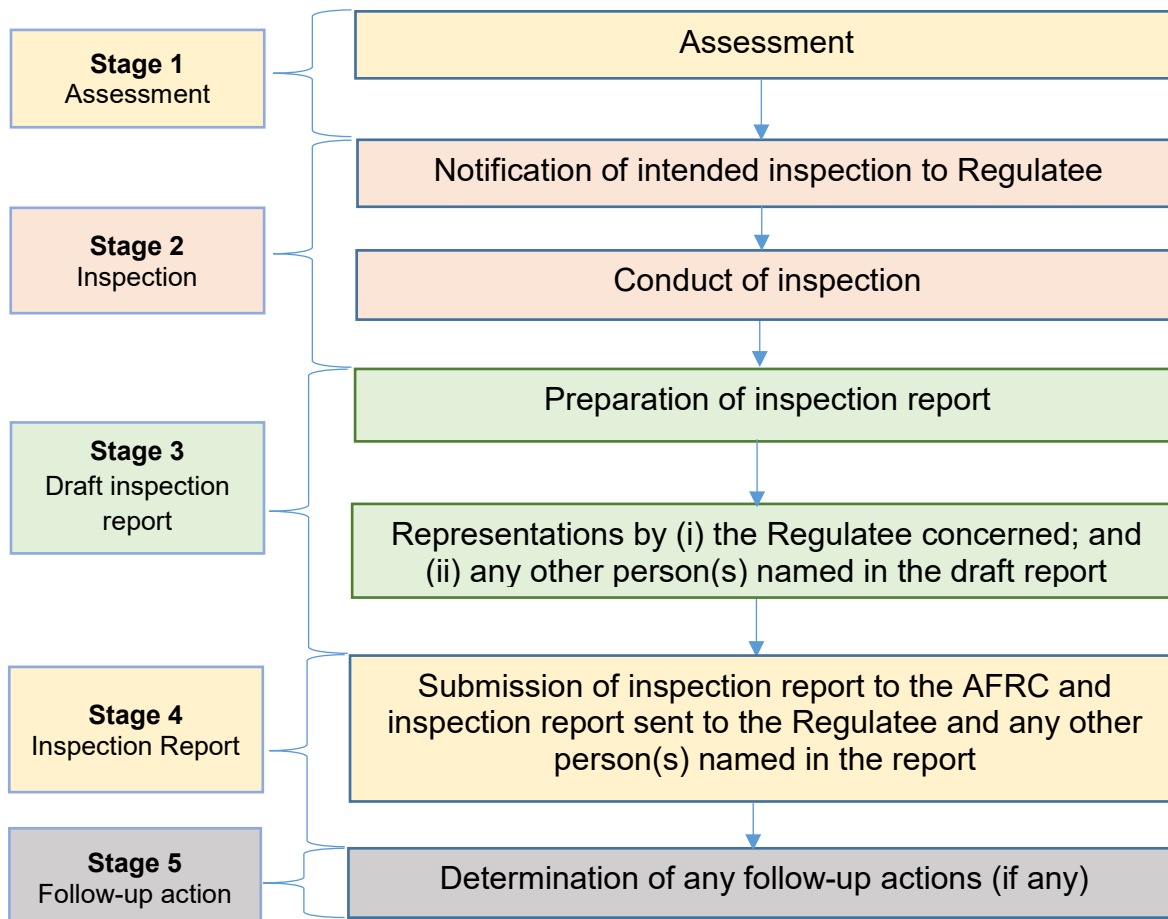
Definitions

6. In this document, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
certified public accountant (“CPA”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50) (“PA Ordinance”).	2(1)
CPA firm	A CPA firm means: <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or • a firm of CPAs (practising) that practises accountancy in partnership and is registered under Division 2 of Part 2A of the AFRCO. 	2(1)
CPA inspector	An CPA inspector means a person appointed as a CPA inspector under section 20ZZA of the AFRCO.	2(1)
certified public accountant (practising) (“CPA (practising)”)	A CPA (practising) means a CPA holding a practising certificate.	2(1)
corporate practice	A corporate practice means a company registered as a corporate practice under Division 3 of Part 2A of the AFRCO.	2(1)
PAO professional standard	A PAO professional standard means any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been	2(1)

	issued or specified, under section 18A of the PA Ordinance.	
practice unit	<p>A practice unit means:</p> <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under the accountant's own name as registered under section 22(2) of the PA Ordinance; • a CPA firm; or • a corporate practice. 	2(1)
registered PIE auditors	A registered PIE auditor means a practice unit registered under Division 2 of Part 3.	3A(1)

Inspection process



Stage 1

(i) Assessment

7. The AFRC will conduct inspections from time to time. When deciding whether to inspect a particular Regulatee in any particular year, and the ambit of the inspection to be carried out, the AFRC will consider, amongst other things:
 - (a) the AFRC's assessment of the risks associated with the Regulatee's practice based on available information (including the results of any prior inspection);
 - (b) the size of the Regulatee, including but not limited to the number of clients and practising partners or directors of the Regulatee during that period;
 - (c) the complexity of the practice and the engagements of the Regulatee;
 - (d) the Regulatee's regulatory history;
 - (e) the period of time since the Regulatee was last inspected by the AFRC; and/or
 - (f) the AFRC's available resources.
8. For the AFRC's determination of the frequency of inspection, the AFRC may from time to time require a Regulatee to provide information relating to the Regulatee and its practices.

(ii) Manner of inspection

9. The CPA inspector will conduct an inspection in relation to a Regulatee either by way of (i) an on-site inspection, or (ii) a desktop review. Desktop review is generally carried out for practice units which do not have certain predetermined risk factors, e.g., whether or not the practice unit audits licensed corporations or brokerage clients or more than a certain number of audits, etc.
10. In the context of an on-site inspection, the CPA inspector will conduct the inspection at the Regulatee's registered office or other registered place of business.
11. In the context of a desktop review, the inspection takes place remotely at the AFRC's office by way of the CPA inspector reviewing such information, records and documents of the Regulatee as requested.

Stage 2

(i) Notification of intended inspection to Regulatee

12. The AFRC has the power to appoint, in writing, an employee of the AFRC, or any other person with the consent of the Financial Secretary, as a CPA inspector for the purposes of the AFRCO.
13. Before the start of an inspection, a CPA inspector will notify the Regulatee in writing of the time and manner the AFRC plans to conduct the inspection.
14. A CPA inspector may also request the Regulatee to provide certain basic information to assist in planning the inspection, including but not limited to information about the Regulatee's clients, engagements, personnel and quality control system.
15. The inspection may be conducted in phases if the AFRC considers it necessary in the circumstances, and a CPA inspector will notify the Regulatee accordingly.

(ii) Conduct of inspection

On-site inspection

16. The on-site inspection fieldwork will be carried out at a reasonable time (usually during office hours), and at the Regulatee's registered office or other registered place of business. It is expected that the CPA inspector will be provided with adequate office facilities and the Regulatee's assistance to enable the inspection to be performed effectively and efficiently.

Desktop review

17. A desktop review will be carried out by the CPA inspector at the AFRC's office.
18. Notwithstanding the manner of inspection, the Regulatee shall comply with its statutory duties and fully cooperate with the CPA inspector at all times during the inspection, including but not limited to:
 - (a) produce or give access to the CPA inspector any specified document in such person's possession or control that the CPA inspector has reasonable cause to believe to be relevant to the inspection;
 - (b) give the CPA inspector such explanation or particulars in respect of the specified document required; and
 - (c) give the CPA inspector all assistance in connection with the inspection that such person is reasonably able to give.

Stage 3

(i) Preparation of inspection report

19. At the conclusion of an inspection, the CPA inspector will prepare an inspection report, which will be submitted to the AFRC (see Stage 4 paragraph 24). If required by the AFRC, the inspector will prepare an inspection report at any other stage of the inspection and submit the report to the AFRC.

(ii) Representations by the (i) Regulatee and (ii) Other Named Persons

20. The CPA inspector must give the Regulatee and any other person(s) named in the draft inspection report (the "**Other Named Persons**") a reasonable opportunity to be heard in respect of the matters set out in the draft inspection report, before inspection report is submitted to the AFRC. This will be done by allowing the Regulatee to make representations in respect of the draft inspection report. The Regulatee and any Other Named Persons will be informed of this right when the draft inspection report is sent to them for this purpose.

21. Under normal circumstances, the Regulatee and any Other Named Persons will be given 21 days to make any representations in writing. However, if the Regulatee or any Other Named Persons considers it necessary to make oral representations, they may request a meeting with the inspector. Such a meeting will only be held if the CPA inspector considers fairness in the circumstances requires it.

22. The Regulatee and any Other Named Persons may make such representations to the CPA inspector as they consider appropriate. However, if the Regulatee or any Other Named Persons does not agree with the contents set out in the draft inspection report, they should identify the matters with which they disagree and explain why they disagree. They should further provide any evidence in their possession which may substantiate their representations.

Stage 4

Submission of inspection report

23. When all representations have been received or the deadline for making representations has otherwise passed, the CPA inspector will consider any representations from the Regulatee and any Other Named Persons which have been submitted. The CPA inspector may modify the draft inspection report in the light of such representations.

24. The CPA inspector shall then finalise the inspection report, and submit the final inspection report to the AFRC. After submission, the CPA inspector will send the final inspection report to the Regulatee and any Other Named Persons.

25. If it is necessary, the Regulatee will be asked to make a proposal to the AFRC in respect of the remedial actions the Regulatee intends to take in response to the inspection report.

Stage 5

Follow-up actions

26. Having regard to the final inspection report, and the Regulatee's proposed remedial actions (if any), the AFRC will determine whether to take any follow-up actions under section 20ZZE of Part 3AA of the AFRCO (and if so what actions to take).

Disclaimer

27. This document provides a summary for reference only. It is not legal advice. Regulatees should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 3E – Policy Statement for Inspection of Practice Units

**with respect to compliance with Anti-
Money Laundering and Counter-
Terrorist Financing Requirements**

Purpose of this document

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. The purpose of this Policy Statement is to provide an overview of the legal regime of the AFRC's powers to conduct inspections in relation to compliance with the anti-money laundering and counter-terrorist financing requirements applicable to accounting professionals.

Definitions

3. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
AML/CTF requirement	An AML/CTF requirement means a requirement set out in Part 2, 3 or 4 of Schedule 2 to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) as may be applicable.	3B(5)
certified public accountant (“ CPA ”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50) (“ PA Ordinance ”).	2(1)
CPA firm	A CPA firm means: <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or • a firm of CPAs (practising) that practises accountancy in partnership and is registered under Division 2 of Part 2A of the AFRCO. 	2(1)

certified public accountant (practising) (“ CPA (practising) ”)	A CPA (practising) means a CPA holding a practising certificate.	2(1)
corporate practice	A corporate practice means a company registered as a corporate practice under Division 3 of Part 2A of the AFRCO.	2(1)
Listing Rules	<p>The Listing Rules mean:</p> <ul style="list-style-type: none"> • the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; or • the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, <p>approved by the Securities and Futures Commission under section 24 of the Securities and Futures Ordinance (Cap. 571), and as in force at the material time.</p>	2(1)
public interest entity (“ PIE ”)	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A
PIE engagement	<p>A PIE engagement means any of the following types of engagements for the preparation of:</p> <ul style="list-style-type: none"> • an auditor’s report on a PIE’s financial statements/ annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules or any relevant code; 	3A; Part 1 of Schedule 1A

	<ul style="list-style-type: none"> • a specified report required to be included in a listing document for the listing of a corporation's shares or stocks or for the listing of a collective investment scheme; or • an accountant's report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition. 	
non-PIE	A non-PIE means a listed corporation the listed securities of which do not comprise shares or stocks.	3(1)
non-PIE auditor	A non-PIE auditor means a practice unit that undertakes or carries out a non-PIE engagement.	3A
non-PIE engagement	<p>A non-PIE engagement means any of the following types of engagements for the preparation of:</p> <ul style="list-style-type: none"> • an auditor's report on a non-PIE's financial statements required to be prepared under section 379 of the Companies Ordinance (Cap. 622) or annual accounts required to be prepared under the Listing Rules; or • a specified report required to be included in a listing document for the listing of a corporation's securities (other than shares and stocks). 	3A; Part 2 of Schedule 1A
PAO professional standard	A PAO professional standard means any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been issued or specified, under section 18A of the PA Ordinance.	2(1)
professional standard	<p>A professional standard means:</p> <ul style="list-style-type: none"> • a PAO professional standard; 	2(1)

	<ul style="list-style-type: none"> • any standard on professional ethics, or accounting, auditing or assurance practices, issued or specified by the International Accounting Standards Board, the International Auditing and Assurance Standards Board or the International Ethics Standards Board for Accountants; • any standard on professional ethics, or accounting, auditing or assurance practices, comparable to those referred to above which is allowed by the Securities and Futures Commission pursuant to the relevant code or by the Hong Kong Exchanges and Clearing Limited pursuant to the Listing Rules; or • any standard on professional ethics, or accounting, auditing or assurance practices, specified in the Listing Rules. 	
professional person	A professional person means a CPA or a practice unit.	2(1)
registered responsible person	<p>A registered responsible person means any of the following individuals whose name is recorded in the PIE auditors register as a responsible person of a registered PIE auditor:</p> <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)

Inspections regarding compliance with anti-money laundering and counter-terrorist financing requirements

4. The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accounting profession is crucial for the business community and is essential for maintaining Hong Kong's status as an international financial centre.

5. The Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (“**AMLO**”) is one of the key legislations setting out Hong Kong's legal framework on anti-money laundering and counter-terrorist financing.
6. The AMLO imposes various AML/CTF requirements, including customer due diligence (“**CDD**”) and record-keeping requirements, with which financial institutions and “designated non-financial businesses and professions” (“**DNFBPs**”) must comply. Section 5A of the AMLO
7. Under the AMLO, DNFBPs are defined to include an “accounting professional” (“**accounting professional**”), which in turn is defined to mean [a CPA, a CPA (practising), a corporate practice or a CPA firm]. As the definition of “accounting professional” in the AMLO and the definition of “professional person” in the AFRCO cover the same range of persons and entities in the accounting profession, the rest of this policy statement will, for the sake of clarity, refer only to “professional persons” in the context of AML/CTF requirements. Schedule 1, Part 2, Section 1 of the AMLO
8. [The AFRC and the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) have both been designated as a “regulatory body” under AMLO in respect of compliance by professional persons with the CDD and record-keeping requirements under AMLO. The AFRC would carry out inspections for the purpose of ascertaining compliance with such CDD and record-keeping requirements and the HKICPA may publish any guideline that it considers appropriate for providing guidance in relation to the operation of such CDD and record-keeping requirements.] [**Subject to the enactment of the subsidiary legislation**] Schedule 1, Part 2, Section 1 of the AMLO [**Subject to enactment of the subsidiary legislation.**]
9. In this regard, the HKICPA has published its “Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants” (“**AML Guidelines**”), which form part of the HKICPA’s “Code of Ethics for Professional Accountants” (“**Code of Ethics**”).
10. The Code of Ethics (including the AML Guidelines) constitutes a PAO professional standard (hence also a professional standard) under the AFRCO. Section 2(1) of the AFRCO
11. Therefore, the AFRC may make use of its powers under the AFRCO to carry out inspections under both Part 3A (of PIE auditors in respect of PIE engagements) and Part 3AA (of practice units in respect of engagements other than PIE engagements) for the purpose of ascertaining compliance with the AML Guidelines.
12. For the AFRC’s policy and high-level procedures for inspections, please refer to (i) the [“Policy Statement for Inspection of PIE Auditors with respect to PIE](#)

[Engagements](#)"; (ii) the [“Outline of the AFRC’s Inspection Process for PIE Auditors”](#); (iii) the [“Policy Statement for Inspection of Practice Units with respect to engagements other than PIE Engagements”](#); and (iv) the [“Outline of the AFRC’s Inspection Process for Practice Units that are not PIE Auditors”](#), which are available on the AFRC’s website (www.afrc.org.hk).

13. Pursuant to section 3B of the AFRCO, a failure by a professional person to comply with an applicable AML/CTF requirement constitutes a professional irregularity, and may result in the imposition of disciplinary sanctions. Section 3B of the AFRCO

14. Pursuant to section 4 of the AFRCO, a failure or neglect to observe, maintain or otherwise apply the AML Guidelines (which, as indicated above, constitutes a professional standard) by (i) a PIE auditor or non-PIE auditor (whether it is a corporate practice, a CPA (practising), or a firm of CPAs (practising)), or (ii) a registered responsible person of a registered PIE auditor, in relation to PIE engagements completed on or after 1 October 2019, constitutes a practice irregularity, and may result in the imposition of disciplinary sanctions. Section 4 of the AFRCO

Disclaimer

15. This document provides a summary for reference only. It is not legal advice. Persons concerned should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.



Section 4: Engagement relating to registration and issuance of practising certificates

The system of registration and issuance of practising certificates is a critical step to ensure the overall competency of the accountancy profession in Hong Kong.

The AFRC will take on the following registration-related functions:

- registration of PIE auditors;
- issuance of practising certificates to CPAs;
- registration of firm names and firms; and
- registration of corporate practices.

While the relevant criteria and requirements will remain largely unchanged, the AFRC's assumption of these functions will enhance the independence of regulation in line with international standards and practice.

The FRC has prepared the following documents to provide the public with an overview of the legal regime and processes pertaining to its new functions:

Document No.	Document
4A	Policy Statement for the Registration of PIE Auditors
4B	Outline of the AFRC's Process for the Registration of PIE Auditors
4C	Policy Statement for the Issuance of Practising Certificates
4D	Outline of the AFRC's Process for the Issuance of Practising Certificates
4E	Policy Statement for the Registration of Firm Names and Firms
4F	Outline of the AFRC's Process for the Registration of Firm Names and Firms
4G	Policy Statement for the Registration of Corporate Practices
4H	Outline of the AFRC's Process for the Registration of Corporate Practices

Document 4A – Policy Statement for the Registration of PIE Auditors

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. The AFRC is empowered to register practice units as registered public interest entity (“**PIE**”) auditors under Division 2 of Part 3 of the AFRCO (“**registered PIE auditors**”).

Definitions

3. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
certified public accountant (“ CPA ”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the PA Ordinance.	2(1)
certified public accountant (practising) (“ CPA (practising) ”)	A CPA (practising) means a CPA holding a practising certificate.	2(1)
corporate practice	A corporate practice means a company registered as a corporate practice under Division 3 of Part 2A of the AFRCO.	2(1)
CPA firm	A CPA firm means: <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or 	2(1)

	<ul style="list-style-type: none"> a firm of CPAs (practising) that practises accountancy in partnership and is registered under Division 2 of Part 2A of the AFRCO. 	
engagement partner	An engagement partner means a partner or other person authorised by a practice unit or registered PIE auditor to be responsible for the PIE engagements carried out by the unit or auditor.	2(1)
engagement quality control reviewer	An engagement quality control reviewer means a person authorised by a practice unit or registered PIE auditor to oversee the engagement quality control reviews carried out in relation to the PIE engagements carried out by the unit or auditor.	2(1)
Listing Rules	<p>Listing Rules mean:</p> <ul style="list-style-type: none"> the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; or the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, <p>approved by the Securities and Futures Commission under section 24 of the Securities and Futures Ordinance (Cap. 571), and as in force at the material time.</p>	2(1)
PA Ordinance	PA Ordinance means the Professional Accountants Ordinance (Cap. 50).	2(1)
PIE	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A(1)
PIE engagement	A PIE engagement means any of the following types of engagements for the preparation of:	3A(1);

	<ul style="list-style-type: none"> • an auditor's report on a PIE's financial statements / annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules or any relevant code; • a specified report required to be included in a listing document for the listing of a corporation's shares or stocks or for the listing of a collective investment scheme; or • an accountant's report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition. 	Part 1 of Schedule 1A
practice unit	<p>A practice unit means:</p> <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under the accountant's own name as registered under section 22(2) of the PA Ordinance; • a CPA firm; or • a corporate practice. 	2(1)
practising certificate	<p>A practising certificate means a practising certificate issued under section 20AAD or 20AAI of the AFRCO.</p>	2(1)
quality control system responsible person	<p>A quality control system responsible person means a person authorised by a practice unit or a registered PIE auditor to be responsible for the quality control system of the unit or auditor.</p>	2(1)
recognized PIE auditor	<p>A recognized PIE auditor means an overseas auditor recognized under Division 3 of Part 3 of the AFRCO, including a Mainland auditor recognized under section 20ZT of the AFRCO.</p>	3A(1)

registered responsible person	A registered responsible person means an individual whose name is recorded in the PIE auditors register as a responsible person of the registered PIE auditor.	2(1)
relevant code	A relevant code means: <ul style="list-style-type: none"> • a code or guideline published under section 112ZR of the Securities and Futures Ordinance (Cap. 571), as in force at the material time; or • a code or guideline published under section 399 of that Ordinance for providing guidance in relation to the operation of section 104 of that Ordinance, as in force at the material time. 	2(1)
responsible person	A responsible person in relation to a practice unit or a registered PIE auditor means: <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)

Purpose of this document

4. The purpose of this Policy Statement is to provide an overview of the legal regime for the registration of PIE auditors.
5. For an outline of the application and notification process, please refer to the [“Outline of the AFRC’s Process for the Registration of PIE Auditors”](#) available on the AFRC’s website (www.afrc.org.hk).

Objectives of registration and recognition of PIE auditors

6. The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accountancy profession is crucial for the business community and is essential for maintaining Hong Kong’s status as an international financial centre.

7. All auditors intending to carry out a PIE engagement are subject to a system of registration (for practice units) and recognition (for overseas auditors). Through registration and recognition, the AFRC can uphold the standards of auditors of PIEs, which is critical to enhancing the quality of financial reporting and audit quality of PIEs.
8. This Policy Statement relates to the registration of practice units as registered PIE auditors. For more information concerning the recognition of overseas auditors as recognized PIE auditors, please refer to the [“Policy Statement for the Recognition of PIE Auditors”](#) available on the AFRC’s website (www.afrc.org.hk).

Undertaking and carrying out a PIE engagement

9. All practice units intending to undertake (i.e. accept an appointment for carrying out) or carry out a PIE engagement must first apply to the AFRC in the form and way specified by the AFRC and accompanied by the fee specified in Schedule 3B of the AFRCO and be registered with the AFRC as a registered PIE auditor. Sections 20B and 20G of the AFRCO

Eligibility for registration as a registered PIE auditor

Responsible persons

10. A registered PIE auditor must ensure that it has, at all times, the following three types of registered responsible persons: Section 20U of the AFRCO
 - (a) at least one registered engagement partner;
 - (b) at least one registered engagement quality control reviewer; and
 - (c) at least one registered quality control system responsible person.
11. When applying for registration as a registered PIE auditor, the applicant should therefore provide a list of all the applicant’s nominated responsible persons to the AFRC. Section 20G of the AFRCO
12. A person may be nominated for one or more of the three roles as specified in paragraph 10 above. However, as the same person cannot act as both a registered engagement partner and a registered engagement quality control reviewer in relation to the same PIE engagement, the applicant must nominate at least two different persons for registration. Section 20U of the AFRCO

Approval criteria

13. An application for registration as a registered PIE auditor will not be granted unless the AFRC is satisfied that:
- (a) the applicant is a practice unit;
 - (b) where the applicant is a:
 - (i) CPA (practising) – the applicant is a fit and proper person to be a CPA;
 - (ii) firm of CPAs (practising) – each partner of the applicant is a fit and proper person to be a CPA; or
 - (iii) corporate practice – each director of the applicant is a fit and proper person to be a CPA;
 - (c) each responsible person of the applicant specified in the application is a fit and proper person to be a CPA; and
 - (d) the quality control system responsible person of the applicant specified in the application is the chief executive officer or a member of the managing board of partners of the applicant.

Section 20H
of the
AFRCO

Determination of fit and proper

14. The AFRC will have regard to the following matters in determining whether a person is fit and proper to be a CPA:
- (a) professional qualification, knowledge, skills and experience;
 - (b) reputation, character, reliability and integrity;
 - (c) financial status and solvency;
 - (d) any disciplinary action taken against the person under the AFRCO or the PA Ordinance; and
 - (e) any conviction of any offence in Hong Kong or elsewhere.

Section 20Q
of the
AFRCO

Decision on the application

15. The AFRC will consider the information submitted by the applicant as well as any other available information in its possession and then make a decision on the application. The AFRC may:
- (a) grant the application without condition;
 - (b) grant the application subject to conditions (see paragraphs 25 and 26 below); or
 - (c) refuse the application.
16. The AFRC will inform the applicant of its decision by written notice and issue a copy of the notice to each responsible person of the applicant listed in the application. The written notice will include a statement of reasons where the application is granted subject to conditions or refused by the AFRC. An applicant who is aggrieved by a decision of the AFRC to grant the application subject to conditions or refuse the application may apply to the Accounting and Financial Reporting Review Tribunal (“**Tribunal**”) for a review of the decision (see paragraph 38 below).

Sections 20H, 20P and 20S of the AFRCO

Sections 20I, 20S and 37Q of the AFRCO

Validity of registration

17. If the AFRC approves the application, the practice unit will be registered as a PIE auditor and the approved responsible persons will be registered as responsible persons of the auditor from the day specified by the AFRC in the written notice.
18. The registration expires on 31 December of the year in which the registration takes effect.

Section 20J of the AFRCO

Section 20J of the AFRCO

Renewal

19. The registration of a PIE auditor is subject to annual renewal. A renewal application must be made by the registered PIE auditor between 1 October and 16 November of the year in which the current registration expires.
20. The AFRC will only grant a renewal application if it is satisfied that the registered PIE auditor continues to meet all the requirements set out in paragraph 13 above and:

Sections 20J and 20K of the AFRCO

Section 20L of the AFRCO

- (a) if the applicant was a CPA (practising) when the applicant was first registered – the applicant continues to be a CPA (practising);
 - (b) if the applicant was a firm of CPAs (practising) when the applicant was first registered – the applicant continues to be a firm of CPAs (practising); or
 - (c) if the applicant was a corporate practice when the applicant was first registered – the applicant continues to be a corporate practice.
21. The AFRC will consider the information submitted by the applicant as well as any other available information in its possession and then make a decision on the application. The AFRC may:
- (a) grant the application without condition;
 - (b) grant the application subject to conditions (see paragraphs 25 and 26 below); or
 - (c) refuse the application.
22. The AFRC will inform the applicant of its decision by written notice and issue a copy of the notice to each registered responsible person of the applicant. The written notice will include a statement of reasons where the application is granted subject to conditions or refused by the AFRC. An applicant who is aggrieved by a decision of the AFRC to grant the application subject to conditions or refuse the application may apply to the Tribunal for a review of the decision (see paragraph 38 below).
23. If the AFRC approves the renewal application, the registration of the PIE auditor will be renewed from the day specified by the AFRC in the written notice and expires on 31 December of the year in which the renewal takes effect.
24. Please note that the current registration of a registered PIE auditor will be extended if the auditor has made a renewal application but the application is not finally determined before the expiry of the current registration. The current registration will remain in force until:
- (a) if the registration is renewed – the day on which the renewal takes effect; or
 - (b) if the renewal application is refused – the day on which the refusal takes effect.

Sections 20L, 20P and 20S of the AFRCO

Sections 20M, 20S and 37Q of the AFRCO

Section 20O of the AFRCO

Section 20N of the AFRCO

Imposition or amendment of registration conditions

25. The AFRC may at any time impose any condition or amend any existing condition in relation to the registration of a PIE auditor that the AFRC considers appropriate. [Section 20S of the AFRCO](#)
26. If the AFRC decides to impose or amend such a condition, the AFRC will inform the registered PIE auditor by written notice and issue a copy of the notice to each registered responsible person of the auditor. The notice will include a statement of reasons for the decision. A registered PIE auditor who is aggrieved by a decision of the AFRC to impose or amend a condition may apply to the Tribunal for a review of the decision (see paragraph 38 below). [Sections 20S and 37Q of the AFRCO](#)

Obligations of a registered PIE auditor

Registered responsible persons

27. A registered PIE auditor must not authorise any person who is not a registered engagement partner, registered engagement quality control reviewer or registered quality control system responsible person of the auditor to carry out any activity in the respective roles of the auditor. It is an offence for a person to carry out any activity as an engagement partner or an engagement quality control reviewer of a registered PIE auditor if the person is not respectively a registered engagement partner or registered engagement quality control reviewer of the auditor. [Section 20D, 20E, 20F and 20V of the AFRCO](#)
28. A registered PIE auditor must ensure that its registered quality control system responsible person is provided with sufficient resources and support to carry out the responsible person's duties. Such responsible person must use his or her best endeavours to ensure that the registered PIE auditor:
- (a) has established and maintains a quality control system in relation to the PIE engagements carried out by the auditor;
 - (b) has established policies and procedures for monitoring the quality control system; and
 - (c) complies with the policies and procedures.
29. If a registered PIE auditor proposes to add the name of a person to the list of its registered responsible persons, it must apply to the AFRC. The name of the person may be added if the person meets the requirements in paragraphs 13(c) and (d) above. The AFRC will inform the applicant of its decision by written notice [Sections 20S, 20Y and 37Q of the AFRCO](#)

and issue a copy of the notice to the proposed responsible person. The written notice will include a statement of reasons where the application is granted subject to conditions or refused by the AFRC. An applicant who is aggrieved by a decision of the AFRC to grant an application subject to conditions or refuse the application may apply to the Tribunal for a review of the decision (see paragraph 38 below).

Notification of changes in particulars or changes in responsible persons, partners and directors

30. A registered PIE auditor must, within 14 days after the day on which any of the following changes takes place, inform the AFRC of the change by submitting a completed Form [*] to the AFRC: Sections 20Z and 20ZA of the AFRCO
- (a) a registered responsible person ceases to be a responsible person of the registered PIE auditor;
 - (b) a person becomes or ceases to be a partner or director of the registered PIE auditor; or
 - (c) a change in the full name, business address, telephone number and/or electronic mail address of the registered PIE auditor or any of its registered responsible persons.
31. A person who contravenes the above requirement without reasonable excuse commits an offence. Sections 20Z and 20ZA of the AFRCO

Failure to meet a requirement after registration

32. If a registered PIE auditor fails to meet a requirement specified in paragraphs 10, 13(b), 13(c) or 13(d) above (“**specified requirement**”) the auditor must, within 7 days after the day on which the failure begins, inform the AFRC of the failure by written notice. A person who contravenes the above requirement without reasonable excuse commits an offence. Section 20X of the AFRCO
33. The registered PIE auditor is required, within 14 days after notifying the AFRC, to take steps to ensure that the specified requirement is met. Section 20X of the AFRCO
34. If the registered PIE auditor still fails to meet the specified requirement on the expiry of the 14-day period, the AFRC may revoke or suspend the registration of the auditor. The AFRC will inform the registered PIE auditor of any such revocation or suspension by written notice and issue a copy of the notice to each registered responsible person of the auditor. The notice will include a statement Sections 20X and 37Q of the AFRCO

of reasons for the decision. The registered PIE auditor who is aggrieved by a decision of the AFRC to revoke or suspend the registration may apply to the Tribunal for a review of the decision (see paragraph 38 below).

Revocation or suspension of registration on other non-disciplinary grounds

35. The AFRC must revoke the registration of a PIE auditor:

Section 20T
of the
AFRCO

- (a) where the auditor was a CPA (practising) when the auditor was first registered:
 - (i) if the auditor dies; or
 - (ii) if the auditor ceases to be a CPA (practising);
- (b) where the auditor was a firm of CPAs (practising) when the auditor was first registered:
 - (i) if the auditor ceases to operate and the partnership is dissolved; or
 - (ii) if the auditor ceases to be a firm of CPAs (practising); and
- (c) where the auditor was a corporate practice when the auditor was first registered:
 - (i) if the auditor has commenced to be wound up; or
 - (ii) if the auditor ceases to be a corporate practice.

36. The AFRC may also revoke or suspend the registration of a PIE auditor if:

Section 20T
of the
AFRCO

- (a) the auditor requests the AFRC to do so; or
- (b) the AFRC is satisfied that the auditor has been registered:
 - (i) by mistake; or
 - (ii) in consequence of any misleading, false or fraudulent statement, declaration or representation, whether orally or in writing.

37. The AFRC will inform the registered PIE auditor of any such revocation or suspension by written notice and issue a copy of the notice to each registered

Sections 20T
and 37Q of
the AFRCO

responsible person of the auditor. The notice will include a statement of reasons for the decision. A registered PIE auditor who is aggrieved by a decision of the AFRC to revoke or suspend the registration may apply to the Tribunal for a review of the decision (see paragraph 38 below).

Review of the AFRC's decision

38. Any person who is aggrieved by a decision of the AFRC made in relation to the person to:

Sections 20I, 20L, 20S, 20T, 20Y, 37M and 37Q of the AFRCO

- (a) refuse a registration or renewal application;
- (b) impose or amend a condition in relation to the registration of a PIE auditor;
- (c) refuse to add the name of a person to the list of registered responsible persons of a registered PIE auditor; or
- (d) revoke or suspend the registration of a PIE auditor for failure to meet requirements after registration or on other non-disciplinary grounds,

may, within 21 days beginning on the day after a notice of the decision is issued by the AFRC, apply to the Tribunal for a review of that decision.

39. The Tribunal is independent of the AFRC. The Tribunal consists of a chairperson and two other ordinary members from the Tribunal panel, all of whom must not be public officers. The chairperson and members of the Tribunal panel must be appointed by the Chief Executive of the HKSAR.

Section 37N and Schedule 4A of the AFRCO

40. The Tribunal may determine a review in relation to the decision by:

Section 37T of the AFRCO

- (a) confirming, varying or setting aside the decision; or
- (b) remitting the matter in question to the AFRC with any direction it considers appropriate.

41. If the decision is set aside, the Tribunal may make another decision it considers appropriate in substitution.

Section 37T of the AFRCO

Appeal

42. If the AFRC or a party to a review is dissatisfied with the determination of the review made by the Tribunal, the person may, within 30 days after the day on

Sections 37ZF and 37ZG of the AFRCO

which the determination is issued to the AFRC or the party, apply to the Court of Appeal for leave to appeal against that determination on a question of law and/or fact.

43. Leave to appeal may only be granted if the Court of Appeal is satisfied that the appeal has a reasonable prospect of success or there are some other reasons in the interests of justice that the appeal should be heard. Section 37ZG of the AFRCO
44. On an appeal against a determination of the Tribunal, the Court of Appeal may: Section 37ZH of the AFRCO
- (a) allow the appeal;
 - (b) dismiss the appeal;
 - (c) vary or set aside the determination; or
 - (d) remit the matter in question to the Tribunal or the AFRC with any direction it considers appropriate.
45. If a determination of the Tribunal is set aside, the Court of Appeal may make another determination it considers appropriate in substitution. Section 37ZH of the AFRCO

Levy payable by registered PIE auditors

46. A registered PIE auditor is required to pay an annual levy to the AFRC starting from 2022. The levy is calculated in accordance with Schedule 7 of the AFRCO. Section 50C of the AFRCO

Disclaimer

47. This document provides a summary for reference only. It is not legal advice. Applicants should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 4B – Outline of the AFRC’s Process for the Registration of PIE Auditors

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is empowered to register practice units as registered public interest entity (“**PIE**”) auditors under Division 2 of Part 3 of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”) (“**registered PIE auditors**”).
2. This document is intended to provide a brief outline of:
 - (a) the application process in respect of:
 - (i) an application for registration as a registered PIE auditor;
 - (ii) an application for renewal of registration as a registered PIE auditor; and
 - (iii) an application for addition of registered responsible persons; and
 - (b) the notification process in respect of a change in particulars of a registered PIE auditor.
3. For more information concerning the legal regime for the registration of PIE auditors (including eligibility requirements), please refer to the [“Policy Statement for the Registration of PIE Auditors”](#) available on the AFRC’s website (www.afrc.org.hk).

Definitions

4. In this document, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
certified public accountant (“ CPA ”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50).	2(1)

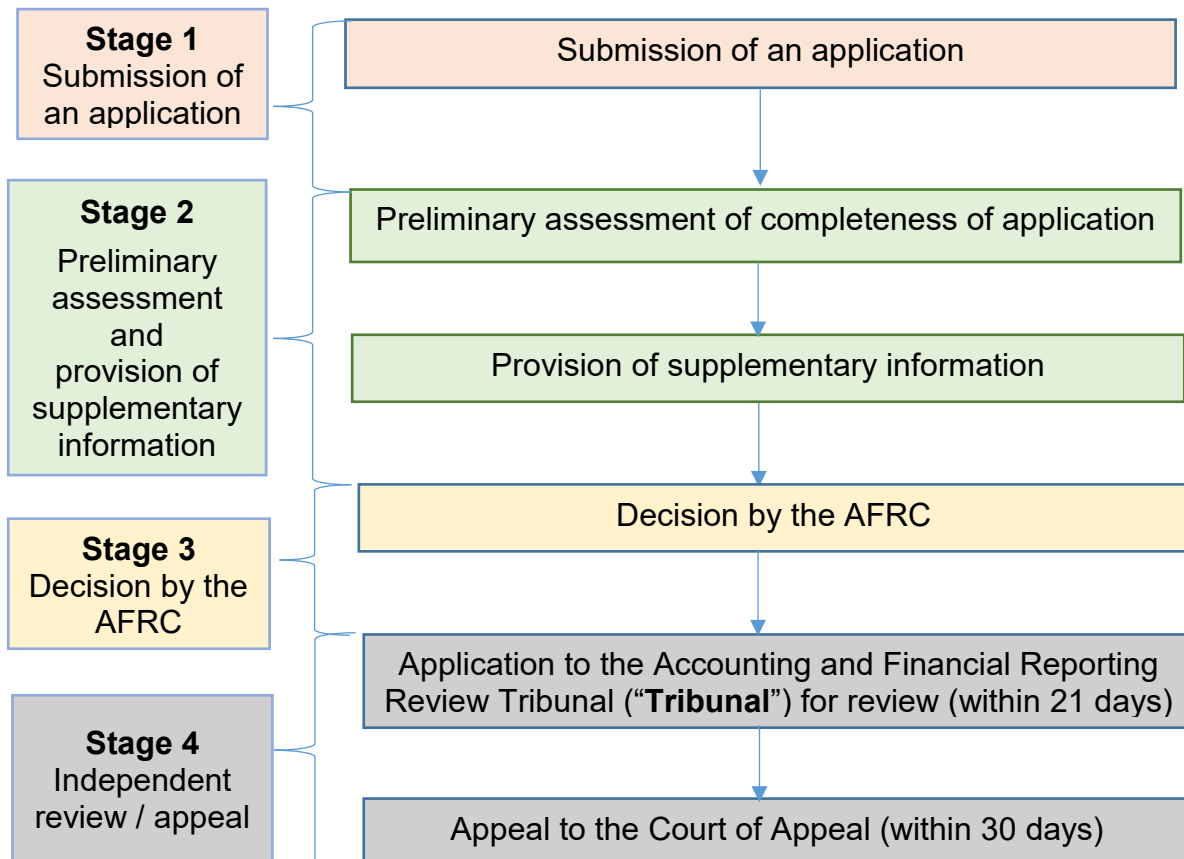
certified public accountant (practising) (“CPA (practising)”)	A CPA (practising) means a CPA holding a practising certificate.	2(1)
corporate practice	A corporate practice means a company registered as a corporate practice under Division 3 of Part 2A of the AFRCO.	2(1)
CPA firm	A CPA firm means: <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or • a firm of CPAs (practising) that practises accountancy in partnership and is registered under Division 2 of Part 2A of the AFRCO. 	2(1)
engagement partner	An engagement partner means a partner or other person authorised by a practice unit or registered PIE auditor to be responsible for the PIE engagements carried out by the unit or auditor.	2(1)
engagement quality control reviewer	An engagement quality control reviewer means a person authorised by a practice unit or registered PIE auditor to oversee the engagement quality control reviews carried out in relation to the PIE engagements carried out by the unit or auditor.	2(1)
Listing Rules	Listing Rules mean: <ul style="list-style-type: none"> • the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; or • the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, 	2(1)

	approved by the Securities and Futures Commission under section 24 of the Securities and Futures Ordinance (Cap. 571), and as in force at the material time	
PIE	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A(1)
PIE engagement	<p>A PIE engagement means any of the following types of engagements for the preparation of:</p> <ul style="list-style-type: none"> • an auditor’s report on a PIE’s financial statements / annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules or any relevant code; • a specified report required to be included in a listing document for the listing of a corporation’s shares or stocks or for the listing of a collective investment scheme; or • an accountant’s report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition. 	3A(1); Part 1 of Schedule 1A
practice unit	<p>A practice unit means:</p> <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant’s own account under the accountant’s own name as registered under section 22(2) of the Professional Accountants Ordinance (Cap. 50); • a CPA firm; or • a corporate practice. 	2(1)

practising certificate	A practising certificate means a practising certificate issued under section 20AAD or 20AAI of the AFRCO.	2(1)
quality control system responsible person	A quality control system responsible person means a person authorised by a practice unit or a registered PIE auditor to be responsible for the quality control system of the unit or auditor.	2(1)
registered responsible person	A registered responsible person means an individual whose name is recorded in the PIE auditors register as a responsible person of the registered PIE auditor.	2(1)
relevant code	A relevant code means: <ul style="list-style-type: none"> • a code or guideline published under section 112ZR of the Securities and Futures Ordinance (Cap. 571), as in force at the material time; or • a code or guideline published under section 399 of that Ordinance for providing guidance in relation to the operation of section 104 of that Ordinance, as in force at the material time. 	2(1)
responsible person	A responsible person in relation to a practice unit or a registered PIE auditor means: <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)

Application process

5. The application process is the same for all three types of applications set out in paragraph 2(a) above and can be summarized as follows:



Application for registration as a registered PIE auditor

Stage 1

Submission of an application

6. A practice unit applying to be registered as a registered PIE auditor is required to submit an application to the AFRC. In order to complete the application, the applicant will have to:
- complete the Application Form for Registration as Registered Public Interest Entity (PIE) Auditor;

- (b) provide a list of all the applicant's nominated responsible persons;
 - (c) if the applicant is a firm of CPAs (practising), provide a list of all its partners;
 - (d) if the applicant is a corporate practice, provide a list of all its directors;
 - (e) provide Fit and Proper Declaration Forms signed by each of the partners / directors of the applicant and any other persons being nominated as a responsible person;
 - (f) provide Personal Details Forms signed by each of the persons being nominated as an engagement quality control reviewer if the person is not a CPA (practising);
 - (g) provide all necessary supporting documents; and
 - (h) pay the application fee of HK\$250.
7. An applicant is required to provide the AFRC with all information that the AFRC reasonably requires to consider the application. Accordingly, before submitting the application the applicant should check that:
- (a) all required fields in the applicable forms have been completed;
 - (b) all necessary supporting documents have been provided; and
 - (c) if the answer to any of the questions set out in the Fit and Proper Declaration Forms is "yes", an explanation has been provided to explain why the declarant is a fit and proper person to be a CPA.

Stage 2

- (i) *Preliminary assessment of completeness of application and provision of supplementary information*
8. The AFRC will first conduct a preliminary assessment on the application to check whether the information received is complete and the application fee is paid.
9. The AFRC may, where appropriate, require the applicant to provide supplementary information which the AFRC considers relevant to the application.

Unless otherwise specified, the applicant is required to respond in writing within 10 business days of the date of the requirement.

10. If the applicant does not provide the required information to the AFRC within the stipulated deadline, the AFRC may proceed to make a decision on the application based on the evidence before it, and will likely refuse the application on the basis that there is insufficient information available for the AFRC to satisfy itself that the relevant requirements under the AFRCO have been met.
11. For the avoidance of doubt, in an appropriate case the AFRC may reject an application directly without requiring supplementary information from the applicant. The AFRC may do so where, for example, it is clear on the face of the application that the applicant does not meet the relevant requirements under the AFRCO.

(ii) Processing time

12. The AFRC will outline in its website the submission deadlines for which applications will be processed by a given point of time. Results will usually be available 10 weeks after the submission deadline, if the AFRC is satisfied that no supplementary information is required for the application.
13. Although the AFRC will strive to adhere to this timetable, the time it takes to process an application may vary depending on a number of factors such as:
 - (a) the quality and completeness of the application;
 - (b) the quality of the supporting documents;
 - (c) the complexity of the application;
 - (d) subsequent changes made to the application;
 - (e) the time taken for other regulatory bodies to respond to vetting requests, where applicable; and
 - (f) the number of applications the AFRC is processing at any particular time.

Stage 3

Decision by the AFRC

14. The AFRC will consider all available information in its possession (whether or not provided by the applicant) and then make a decision on the application.
15. The AFRC will inform the applicant of its decision by written notice and issue a copy of the notice to each responsible person of the applicant listed in the application. The written notice will include a statement of reasons where:
 - (a) the application is refused by the AFRC; or
 - (b) the application is granted by the AFRC subject to conditions.

Stage 4

(i) Application to the Tribunal for review

16. An applicant who is aggrieved by a decision of the AFRC to refuse the application or impose a condition in relation to the registration may apply to the Tribunal for a review of that decision.
17. The application for review must be made to the Tribunal in writing within 21 days after the AFRC issued the written notice to the applicant. This period may be extended by applying to the Tribunal and demonstrating a good cause.
18. The application for review must state the grounds for the application.

(ii) Appeal to the Court of Appeal

19. If a party to a review is dissatisfied with a determination of the Tribunal, an appeal can be made to the Court of Appeal on a question of law and/or fact. The party concerned must first apply to the Court of Appeal for leave to appeal within 30 days after the Tribunal issued the determination to the party.
20. Leave to appeal may only be granted if the Court of Appeal is satisfied that the appeal has a reasonable prospect of success or there are some other reasons in the interests of justice that the appeal should be heard.

Application for renewal of registration as a registered PIE auditor

Stage 1

Submission of an application

21. A registered PIE auditor intending to renew its registration as a registered PIE auditor is required to submit a renewal application to the AFRC. In order to complete the application, the applicant will have to:
 - (a) complete the Annual Return for Renewal;
 - (b) provide all necessary supporting documents; and
 - (c) pay the application fee of HK\$200.

22. An applicant is required to provide the AFRC with all information that the AFRC reasonably requires to consider the application. Accordingly, before submitting the application the applicant should check that:
 - (a) all required fields in the applicable forms have been completed;
 - (b) all necessary supporting documents have been provided; and
 - (c) if there have been any changes to the fit and proper declarations previously submitted, an explanation has been provided to explain why the declarant is a fit and proper person to be a CPA.

23. The application must be made between 1 October and 16 November of the year in which the current registration expires.

Stage 2

- (i) *Preliminary assessment of completeness of application and provision of supplementary information*
24. The AFRC will first conduct a preliminary assessment on the application and may require the provision of supplementary information in the manner described in paragraphs 8-11 above.

(ii) Processing time

25. Results will usually be available within 30 business days of the date of application, if the AFRC is satisfied that no supplementary information is required for the application. Although the AFRC will strive to adhere to this timetable, the time it takes to process an application may vary depending on a number of factors, including those set out in paragraph 13 above.

Stage 3

Decision by the AFRC

26. The AFRC will consider all available information in its possession (whether or not provided by the applicant) and then make a decision on the application.
27. The AFRC will inform the applicant of its decision by written notice and issue a copy of the notice to each registered responsible person of the applicant. The written notice will include a statement of reasons where:
- (a) the application is refused by the AFRC; or
 - (b) the application is granted by the AFRC subject to conditions.

Stage 4

(i) Application to the Tribunal for review

28. An applicant who is aggrieved by a decision of the AFRC to refuse the application or impose a condition in relation to the registration may apply to the Tribunal for a review of that decision. The relevant procedures are set out in paragraphs 17-18 above.

(ii) Appeal to the Court of Appeal

29. If a party to a review is dissatisfied with a determination of the Tribunal, an appeal can be made to the Court of Appeal on a question of law and/or fact. The relevant procedures are set out in paragraphs 19-20 above.

Application for addition of registered responsible persons

Stage 1

Submission of an application

30. A registered PIE auditor proposing to add the name of a person to the list of registered responsible persons of the auditor is required to submit an application to the AFRC. In order to complete the application, the applicant will have to:
- (a) complete the Application Form for Registration of Additional Responsible Person;
 - (b) provide Fit and Proper Declaration Forms signed by each of the persons being nominated as a registered responsible person;
 - (c) provide Personal Details Forms signed by each of the persons being nominated as a registered responsible person if the person is not a CPA (practising); and
 - (d) provide all necessary supporting documents.
31. An applicant is required to provide the AFRC with all information that the AFRC reasonably requires to consider the application. Accordingly, before submitting the application the applicant should check that:
- (a) all required fields in the applicable forms have been completed;
 - (b) all necessary supporting documents have been provided; and
 - (c) if the answer to any of the questions set out in the Fit and Proper Declaration Forms is “yes”, an explanation has been provided to explain why the declarant is a fit and proper person to be a CPA.

Stage 2

- (i) *Preliminary assessment of completeness of application and provision of supplementary information*

32. The AFRC will first conduct a preliminary assessment on the application and may require the provision of supplementary information in the manner described in paragraphs 8-11 above.

(ii) Processing time

33. The AFRC will outline in its website the submission deadlines for which applications will be processed by a given point of time. Results will usually be available 10 weeks after the submission deadline, if the AFRC is satisfied that no supplementary information is required for the application. Although the AFRC will strive to adhere to this timetable, the time it takes to process an application may vary depending on a number of factors, including those set out in paragraph 13 above.

Stage 3

Decision by the AFRC

34. The AFRC will consider all available information in its possession (whether or not provided by the applicant) and then make a decision on the application.

35. The AFRC will inform the applicant of its decision by written notice and issue a copy of the notice to the nominated person. The written notice will include a statement of reasons where the application is refused by the AFRC.

Stage 4

(i) Application to the Tribunal for review

36. An applicant who is aggrieved by a decision of the AFRC to refuse the application may apply to the Tribunal for a review of that decision. The relevant procedures are set out in paragraphs 17-18 above.

(ii) Appeal to the Court of Appeal

37. If a party to a review is dissatisfied with a determination of the Tribunal, an appeal can be made to the Court of Appeal on a question of law and/or fact. The relevant procedures are set out in paragraphs 19-20 above.

Offences to provide false or misleading information

38. Under section 20R of the AFRCO, a person commits an offence and is liable on conviction to a fine of HK\$50,000 and to imprisonment for 6 months if the person, in connection with an application for registration as a registered PIE auditor or a renewal application:
- (a) makes a statement that is false or misleading in a material particular and knows that, or is reckless as to whether or not, the statement is false or misleading in a material particular; or
 - (b) omits a material particular from a statement with the result that the statement is rendered false or misleading and knows that, or is reckless as to whether or not, the material particular is omitted from the statement.

Notification of changes in particulars

39. A registered PIE auditor must, within 14 days after the day on which any of the following changes takes place, inform the AFRC of the change by submitting a completed Form [*] to the AFRC:
- (a) a registered responsible person ceases to be a responsible person of the registered PIE auditor;
 - (b) a person becomes or ceases to be a partner or director of the registered PIE auditor; or
 - (c) a change in the full name, business address, telephone number and/or electronic mail address of the registered PIE auditor or any of its registered responsible persons.
40. Before submitting the Form [*], the registered PIE auditor should check that:
- (a) all required fields in the applicable forms have been completed; and
 - (b) all necessary supporting documents have been provided.
41. Under sections 20Z and 20ZA of the AFRCO, a person commits an offence and is liable on conviction to a fine of HK\$50,000 if the person, without reasonable excuse, fails to notify the AFRC as required.

Disclaimer

42. This document provides a summary of the AFRC's process for reference only. It is not legal advice. Applicants should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 4C – Policy Statement for the Issuance of Practising Certificates

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. The AFRC is empowered to issue practising certificates to certified public accountants (“**CPA**”) under Division 1 of Part 2A of the AFRCO.

Definitions

3. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
approved accounting experience	Approved accounting experience means the professional accountancy experience approved as sufficient practical experience by the Council of the HKICPA.	20AAL(7)
CPA	A CPA means a person registered as a certified public accountant by virtue of section 22 of the PA Ordinance.	2(1)
certified public accountant (practising) (“ CPA (practising) ”)	A CPA (practising) means a CPA holding a practising certificate.	2(1)
corporate practice	A corporate practice means a company registered as a corporate practice under Division 3 of Part 2A of the AFRCO.	2(1)
CPA firm	A CPA firm means:	2(1)

	<ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or • a firm of CPAs (practising) that practises accountancy in partnership and is registered under Division 2 of Part 2A of the AFRCO. 	
HKICPA	HKICPA means the Hong Kong Institute of Certified Public Accountants incorporated by section 3 of the PA Ordinance.	2(1)
PA Ordinance	PA Ordinance means the Professional Accountants Ordinance (Cap. 50).	2(1)
practising certificate	A practising certificate means a practising certificate issued under section 20AAD or 20AAI of the AFRCO.	2(1)
specified accountancy body	<p>A specified accountancy body means:</p> <ul style="list-style-type: none"> • an accountancy body between which and the HKICPA there is in force an agreement of mutual or reciprocal recognition; or • an accountancy body accepted by the Council of the HKICPA as described in section 24(1A) of the PA Ordinance. 	20AAL(7)
specified office	<p>A specified office means the office of:</p> <ul style="list-style-type: none"> • a CPA (practising); or • a person practising public accountancy in the jurisdiction of a specified accountancy body. 	20AAL(7)

Purpose of this document

4. The purpose of this Policy Statement is to provide an overview of the legal regime for the issuance of practising certificates to CPAs.

5. For an outline of the application and notification process, please refer to the [“Outline of the AFRC’s Process for the Issuance of Practising Certificates”](#) available on the AFRC’s website (www.afrc.org.hk).

Objectives of issuance of practising certificates

6. The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accountancy profession is crucial for the business community and is essential for maintaining Hong Kong’s status as an international financial centre.
7. All CPAs intending to practise and describe himself or herself as a CPA (practising) must apply for a practising certificate from the AFRC. Through the system of issuance of practising certificates, the AFRC can uphold the standards of auditors, which is critical to enhancing the quality of financial reporting and audit quality in Hong Kong.

Appointment or rendering service as an auditor

8. Only a CPA (practising), a CPA firm and a corporate practice may hold an appointment or render services, whether paid or unpaid, as:
 - (a) an auditor of a company within the meaning of the Companies Ordinance (Cap. 622); or
 - (b) unless otherwise exempted by the AFRC, an auditor of accounts for the purposes of any other Ordinance.
9. Further, only a CPA (practising) may sign an audit report. This is regardless of whether the report is issued in the name of the CPA (practising), a CPA firm or a corporate practice.

Section 20AAZZR of the AFRCO

Section 20AAZZM of the AFRCO

Eligibility for issuance of a practising certificate

Approval criteria

10. A CPA may apply to the AFRC for a practising certificate.
11. An application for a practising certificate will not be granted unless the AFRC is satisfied that the applicant:

Section 20AA of the AFRCO

Sections 20AAB and 20AAL of the AFRCO

- (a) has had the following full time approved accounting experience² in one or more specified offices:
 - (i) at least 30 months acquired after the applicant has become a member of a specified accountancy body or a CPA; or
 - (ii) at least 4 years, and at least 1 year of that experience has been acquired after the applicant has become a member of a specified accountancy body or a CPA;
 - (b) possesses the local experience and knowledge of local law and practice that the Council of the HKICPA considers necessary³;
 - (c) has complied with the continuing professional development requirements set by the HKICPA⁴;
 - (d) is ordinarily resident in Hong Kong – in this respect, the AFRC will regard an applicant as being ordinarily resident in Hong Kong if the applicant has been present in Hong Kong for no less than 180 days during the period of 12 months preceding the application;
 - (e) is not a bankrupt and has not entered into a voluntary arrangement (as defined by section 2 of the Bankruptcy Ordinance (Cap. 6)) with his or her creditors;
 - (f) is not subject to an order made by the Disciplinary Committee of the HKICPA or a sanction imposed by the AFRC that the applicant not be issued with a practising certificate either permanently or for a period of time as the respective Disciplinary Committee of the HKICPA or the AFRC considers appropriate;
 - (g) intends to practice as a CPA (practising); and
 - (h) satisfies the fit and proper requirement to be a CPA under the PA Ordinance.
12. The AFRC may dispense with the requirements under paragraphs 11(b) or (d) above if the AFRC considers that the applicant has acquired substantial experience in accountancy, either in Hong Kong or elsewhere, over a period of time considered sufficient by the AFRC.

² Please refer to the HKICPA website (<https://www.hkicpa.org.hk/en>) for the relevant requirements.

³ Please refer to the HKICPA website (<https://www.hkicpa.org.hk/en>) for the relevant requirements.

⁴ Please refer to the HKICPA website (<https://www.hkicpa.org.hk/en>) for the relevant requirements.

13. A person registered as a public accountant (as defined by section 2(1) of the PA Ordinance) immediately before 8 September 2004 is exempted from meeting the requirements set out in paragraphs 11(a), (b) and (d). Section 20AAL of the AFRCO
14. A person commits an offence if the person fraudulently procures the issue of a practising certificate to the person or any other person by means of any misleading, false or fraudulent representation or statement, whether made orally or in writing. Section 20AAN of the AFRCO

Decision on the application

15. The AFRC will consider the information submitted by the applicant as well as any other available information in its possession and then make a decision on the application. The AFRC may: Sections 20AAB and 20AAM of the AFRCO
- (a) grant the application without condition;
 - (b) grant the application subject to the condition that the applicant must comply within a period specified by the AFRC with additional continuing professional development requirements set by the AFRC; or
 - (c) refuse the application.
16. The AFRC will inform the applicant of its decision by written notice. The written notice will include a statement of reasons where the application is refused by the AFRC. An applicant who is aggrieved by a decision of the AFRC to grant the application subject to condition or refuse the application may apply to the Accounting and Financial Reporting Review Tribunal (“**Tribunal**”) for a review of the decision (see paragraph 32 below). Sections 20AAC and 37Q of the AFRCO

Issuance and validity period of a practising certificate

17. If the AFRC approves the application, the AFRC will issue a practising certificate to the applicant on payment of the fee specified in Schedule 3B of the AFRCO. Section 20AAD of the AFRCO
18. The practising certificate takes effect on the day specified by the AFRC in the written notice and expires on 31 December of the year in which the practising certificate takes effect. Section 20AAE of the AFRCO

Renewal

19. The practising certificate is subject to annual renewal. A renewal application must be made by the CPA (practising) no later than 15 December of the year in which the current practising certificate expires. Sections 20AAE and 20AAF of the AFRCO
20. The AFRC will only grant a renewal application if it is satisfied that the CPA (practising) continues to meet all the requirements set out in paragraph 11 above. Section 20AAG of the AFRCO
21. The AFRC will consider the information submitted by the applicant as well as any other available information in its possession and then make a decision on the application. The AFRC may:
- (a) grant the application without condition;
 - (b) grant the application subject to the condition that the applicant must comply within a period specified by the AFRC with additional continuing professional development requirements set by the AFRC; or
 - (c) refuse the application.
22. The AFRC will inform the applicant of its decision by written notice. The written notice will include a statement of reasons where the application is refused by the AFRC. An applicant who is aggrieved by a decision of the AFRC to grant the application subject to condition or refuse the application may apply to the Tribunal for a review of the decision (see paragraph 32 below). Sections 20AAH and 37Q of the AFRCO
23. If the AFRC approves the renewal application, the AFRC will issue a renewed practising certificate to the applicant. The renewal will take effect on the day specified by the AFRC in the written notice and expires on 31 December of the year in which the renewal takes effect. Sections 20AAI and 20AAK of the AFRCO
24. Please note that the validity period of a current practising certificate will be extended if the CPA (practising) has made a renewal application but the application is not finally determined before the expiry of the current practising certificate. The current certificate will remain in force until:
- (a) if the certificate is renewed – the day on which the renewal takes effect; or
 - (b) if the renewal application is refused – the day on which the refusal takes effect.

Obligations of a CPA (practising)

Registered office

25. A CPA (practising) must have a registered office in Hong Kong to which all communications and notices may be addressed. Section 20AAQ of the AFRCO
26. A person who contravenes the above requirement without reasonable excuse commits an offence. Section 20AAR of the AFRCO

Notification of changes in particulars

27. If there is a change in the full name, address of registered office, telephone number and/or electronic mail address of a CPA (practising), the CPA (practising) must, within 14 days after the day on which the change takes place, inform the AFRC of the change by submitting a completed Form [*] to the AFRC. Section 20AAR of the AFRCO
28. A person who contravenes the above requirement without reasonable excuse commits an offence. Section 20AAR of the AFRCO

Cancellation or suspension of a practising certificate on non-disciplinary grounds

29. The AFRC may cancel the practising certificate held by a CPA (practising) if: Section 20AAO of the AFRCO
- (a) the accountant fails to commence practice within 6 months after the date of issue of the practising certificate; or
 - (b) the accountant has become bankrupt or has entered into a voluntary arrangement (as defined by section 2 of the Bankruptcy Ordinance (Cap. 6)) with the accountant's creditors.
30. The AFRC may also cancel or suspend the practising certificate held by a CPA (practising) if: Section 20AAO of the AFRCO
- (a) the accountant requests the AFRC to do so;
 - (b) the AFRC is satisfied that the practising certificate has been issued:
 - (i) by mistake; or

- (ii) in consequence of any misleading, false or fraudulent statement, declaration or representation, whether made orally or in writing; or
 - (c) the AFRC is of the opinion that the accountant has failed to comply with any condition imposed regarding the additional continuing professional development requirements.
31. The CPA (practising) will be informed of any such cancellation or suspension by written notice with a statement of reasons for the decision. A CPA (practising) who is aggrieved by the AFRC's decision to cancel or suspend the practising certificate may apply to the Tribunal for a review of the decision (see paragraph 32 below).

Sections 20AAP and 37Q of the AFRCO

Review of the AFRC's decision

32. Any person who is aggrieved by a decision of the AFRC made in relation to the person to:
- (a) refuse a practising certificate or renewal application;
 - (b) impose a condition when granting a practising certificate application or renewal application; or
 - (c) cancel or suspend a practising certificate on non-disciplinary grounds,
- may, within 21 days beginning on the day after a notice of the decision is issued by the AFRC, apply to the Tribunal for a review of that decision.
33. The Tribunal is independent of the AFRC. The Tribunal consists of a chairperson and two other ordinary members from the Tribunal panel, all of whom must not be public officers. The chairperson and members of the Tribunal panel must be appointed by the Chief Executive of the HKSAR.
34. The Tribunal may determine a review in relation to the decision by:
- (a) confirming, varying or setting aside the decision; or
 - (b) remitting the matter in question to the AFRC with any direction it considers appropriate.
35. If the decision is set aside, the Tribunal may make another decision it considers appropriate in substitution.

Sections 20AAB, 20AAG, 20AAP, 37M and 37Q of the AFRCO

Section 37N and Schedule 4A of the AFRCO

Section 37T of the AFRCO

Section 37T of the AFRCO

Appeal

36. If the AFRC or a party to a review is dissatisfied with the determination of the review made by the Tribunal, the person may, within 30 days after the day on which the determination is issued to the AFRC or the party, apply to the Court of Appeal for leave to appeal against that determination on a question of law and/or fact. Sections 37ZF and 37ZG of the AFRCO
37. Leave to appeal may only be granted if the Court of Appeal is satisfied that the appeal has a reasonable prospect of success or there are some other reasons in the interests of justice that the appeal should be heard. Section 37ZG of the AFRCO
38. On an appeal against a determination of the Tribunal, the Court of Appeal may: Section 37ZH of the AFRCO
- (a) allow the appeal;
 - (b) dismiss the appeal;
 - (c) vary or set aside the determination; or
 - (d) remit the matter in question to the Tribunal or the AFRC with any direction it considers appropriate.
39. If a determination of the Tribunal is set aside, the Court of Appeal may make another determination it considers appropriate in substitution. Section 37ZH of the AFRCO

Disclaimer

40. This document provides a summary for reference only. It is not legal advice. Applicants should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 4D – Outline of the AFRC’s Process for the Issuance of Practising Certificates

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is empowered to issue practising certificates to certified public accountants (“**CPA**”) under Division 1 of Part 2A of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. This document is intended to provide a brief outline of:
 - (a) the application process in respect of:
 - (i) an application for issuance of a practising certificate; and
 - (ii) an application for renewal of practising certificate; and
 - (b) the notification process in respect of a change in particulars of a CPA (practising) (as defined below).
3. For more information concerning the legal regime for the issuance of practising certificates (including eligibility requirements), please refer to the [“Policy Statement for the Issuance of Practising Certificates”](#) available on the AFRC’s website (www.afrc.org.hk).

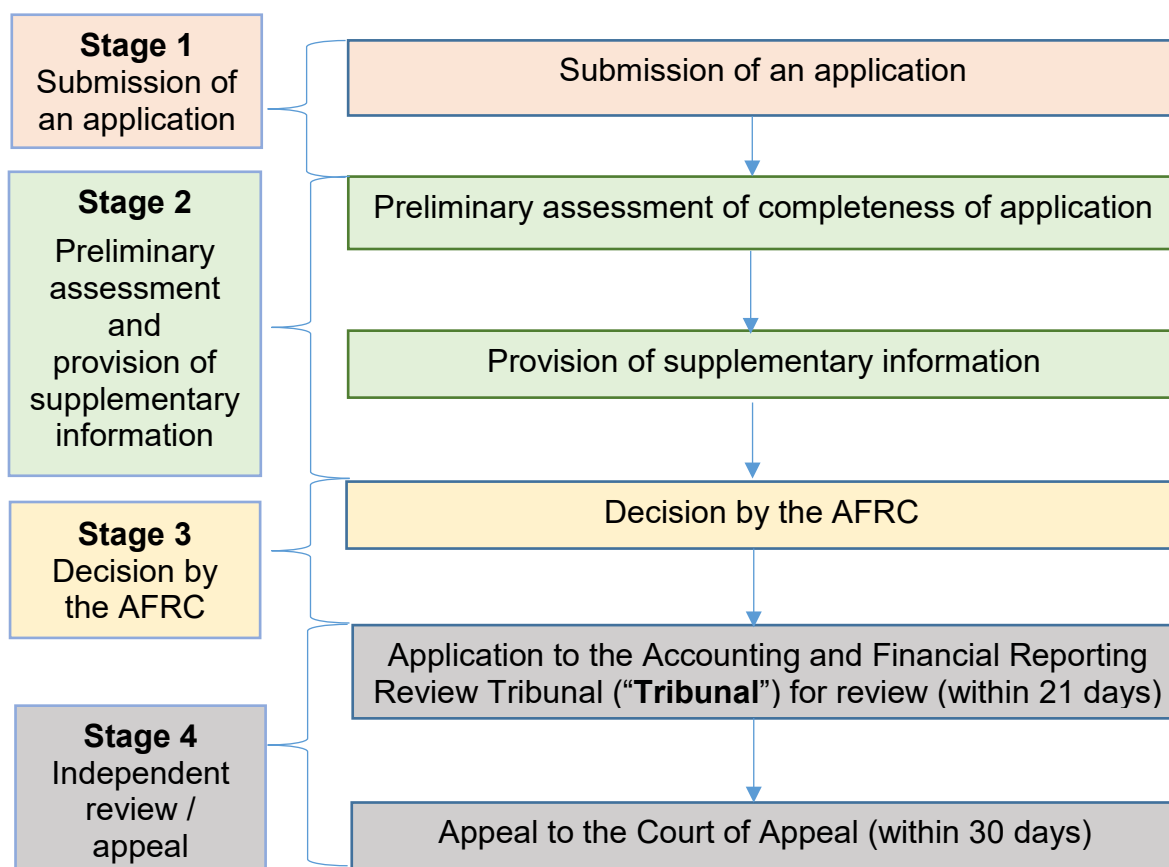
Definitions

4. In this document, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
CPA	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50).	2(1)
certified public accountant (practising) (“ CPA (practising) ”)	A CPA (practising) means a CPA holding a practising certificate.	2(1)

Application process

5. The application process is the same for both types of applications set out in paragraph 2(a) above and can be summarized as follows:



Application for issuance of a practising certificate

Stage 1

Submission of an application

6. A CPA applying for a practising certificate is required to submit an application to the AFRC. In order to complete the application, the applicant will have to:
- complete the Application Form for the Issue of a Practising Certificate (Form [*]); and
 - provide all necessary supporting documents.

7. An applicant is required to provide the AFRC with all information that the AFRC reasonably requires to consider the application. Accordingly, before submitting the application the applicant should check that:
 - (a) all required fields in the applicable forms have been completed; and
 - (b) all necessary supporting documents have been provided.

Stage 2

(i) Preliminary assessment of completeness of application and provision of supplementary information

8. The AFRC will first conduct a preliminary assessment on the application to check whether the information received is complete.
9. The AFRC may, where appropriate, require the applicant to provide supplementary information which the AFRC considers relevant to the application. Unless otherwise specified, the applicant is required to respond in writing within 10 business days of the date of the requirement.
10. If the applicant does not provide the required information to the AFRC within the stipulated deadline, the AFRC may proceed to make a decision on the application based on the evidence before it, and will likely refuse the application on the basis that there is insufficient information available for the AFRC to satisfy itself that the relevant requirements under the AFRCO have been met.
11. For the avoidance of doubt, in an appropriate case the AFRC may reject an application directly without requiring supplementary information from the applicant. The AFRC may do so where, for example, it is clear on the face of the application that the applicant does not meet the requirements under the AFRCO.

(ii) Processing time

12. The AFRC will outline in its website the submission deadlines for which applications will be processed by a given point of time. Results will usually be available 10 weeks after the submission deadline, if the AFRC is satisfied that no supplementary information is required for the application.
13. Although the AFRC will strive to adhere to this timetable, the time it takes to process an application may vary depending on a number of factors such as:

- (a) the quality and completeness of the application;
- (b) the quality of the supporting documents;
- (c) the complexity of the application;
- (d) subsequent changes made to the application;
- (e) the time taken for other regulatory bodies to respond to vetting requests, where applicable; and
- (f) the number of applications the AFRC is processing at any particular time.

Stage 3

Decision by the AFRC

- 14. The AFRC will consider all available information in its possession (whether or not provided by the applicant) and then make a decision on the application.
- 15. The AFRC will inform the applicant of its decision by written notice. In this respect:
 - (a) if the application is granted – the AFRC will issue a practising certificate to the applicant. The practising certificate will be available for collection at the AFRC’s office on the day specified in the written notice; and
 - (b) if the application is refused – the AFRC will provide reasons for the refusal in the written notice.

Stage 4

(i) Application to the Tribunal for review

- 16. An applicant who is aggrieved by a decision of the AFRC to refuse the application or grant the application subject to condition may apply to the Tribunal for a review of that decision.
- 17. The application for review must be made to the Tribunal in writing within 21 days after the AFRC issued written notice to the applicant. This period may be extended by applying to the Tribunal and demonstrating a good cause.

18. The application for review must state the grounds for the application.

(ii) Appeal to the Court of Appeal

19. If a party to a review is dissatisfied with a determination of the Tribunal, an appeal can be made to the Court of Appeal on a question of law and/or fact. The party concerned must first apply to the Court of Appeal for leave to appeal within 30 days after the Tribunal issued the determination to the party.

20. Leave to appeal may only be granted if the Court of Appeal is satisfied that the appeal has a reasonable prospect of success or there are some other reasons in the interests of justice that the appeal should be heard.

Application for renewal of practising certificate

Stage 1

Submission of an application

21. A CPA (practising) intending to renew his or her practising certificate is required to submit a renewal application to the AFRC. In order to complete the application, the applicant will have to:

- (a) complete the Annual Return for Renewal; and
- (b) provide all necessary supporting documents.

22. An applicant is required to provide the AFRC with all information that the AFRC reasonably requires to consider the application. Accordingly, before submitting the application the applicant should check that:

- (a) all required fields in the applicable forms have been completed; and
- (b) all necessary supporting documents have been provided.

23. Under the AFRCO, the application should be made no later than 15 December of the year in which the current practising certificate expires. As the AFRC may require the provision of supplementary information (see Stage 2 below), the applicant is encouraged to submit the renewal application in advance of the statutory deadline. The AFRC will accept renewal applications from 1 November of each year.

Stage 2

(i) *Preliminary assessment of completeness of application and provision of supplementary information*

24. The AFRC will first conduct a preliminary assessment on the application and may require the provision of supplementary information in the manner described in paragraphs 8-11 above.

(ii) *Processing time*

25. Results will usually be available within 30 business days of the date of application, if the AFRC is satisfied that no supplementary information is required for the application. Although the AFRC will strive to adhere to this timetable, the time it takes to process an application may vary depending on a number of factors, including those set out in paragraph 13 above.

Stage 3

Decision by the AFRC

26. The AFRC will consider all available information in its possession (whether or not provided by the applicant) and then make a decision on the application.

27. The AFRC will inform the applicant of its decision by written notice. In this respect:

- (a) if the application is granted – the AFRC will issue a renewed practising certificate to the applicant. The renewed practising certificate will be available for collection at the AFRC's office on the day specified in the written notice; and
- (b) if the application is refused – the AFRC will provide reasons for the refusal in the written notice.

Stage 4

(i) *Application to the Tribunal for review*

28. An applicant who is aggrieved by a decision of the AFRC to refuse the application or grant the application subject to condition may apply to the Tribunal for a review of that decision. The relevant procedures are set out in paragraphs 17-18 above.

(ii) Appeal to the Court of Appeal

29. If a party to a review is dissatisfied with a determination of the Tribunal, an appeal can be made to the Court of Appeal on a question of law and/or fact. The relevant procedures are set out in paragraphs 19-20 above.

Offence of fraudulent procurement of issue of practising certificates

30. Under section 20AAN of the AFRCO, a person commits an offence and is liable on conviction to a fine of HK\$25,000 and to imprisonment for 12 months if the person fraudulently procures the issue of a practising certificate by means of any misleading, false or fraudulent representation or statement, whether made orally or in writing.

Notification of changes in particulars

31. If there is a change in the full name, address of registered office, telephone number and/or electronic mail address of a CPA (practising), the CPA (practising) must, within 14 days after the day on which the change takes place, inform the AFRC of the change by submitting a completed Form [*] to the AFRC.
32. Before submitting the Form [*], the CPA (practising) should check that:
- (a) all required fields in the applicable forms have been completed; and
 - (b) all necessary supporting documents have been provided.
33. Under section 20AAR of the AFRCO, a person commits an offence and is liable on conviction to a fine of HK\$5,000 if the person, without reasonable excuse, fails to notify the AFRC as required.

Disclaimer

34. This document provides a summary of the AFRC's process for reference only. It is not legal advice. Applicants should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 4E – Policy Statement for the Registration of Firm Names and Firms

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. The AFRC is empowered to register firm names and firms under Division 2 of Part 2A of the AFRCO.

Definitions

3. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
certified public accountant (“ CPA ”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50).	2(1)
certified public accountant (practising) (“ CPA (practising) ”)	A CPA (practising) means a CPA holding a practising certificate.	2(1)
corporate practice	A corporate practice means a company registered as a corporate practice under Division 3 of Part 2A of the AFRCO.	2(1)
CPA firm	A CPA firm means: <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or 	2(1)

	<ul style="list-style-type: none"> a firm of CPAs (practising) that practises accountancy in partnership and is registered under Division 2 of Part 2A of the AFRCO. 	
firm name	<p>A firm name means:</p> <ul style="list-style-type: none"> in relation to a CPA (practising) who practises accountancy on the accountant's own account, the name or style under which the accountant practises if the name or style is otherwise than the accountant's own name as registered under section 22(2) of the Professional Accountants Ordinance (Cap. 50); or in relation to a firm of CPAs (practising) that practises accountancy in partnership, the name or style under which the firm practises. 	2(1)
practising certificate	A practising certificate means a practising certificate issued under section 20AAD or 20AAI of the AFRCO.	2(1)

Purpose of this document

- The purpose of this Policy Statement is to provide an overview of the legal regime for the registration of firm names and firms.
- For an outline of the application and notification process, please refer to the [“Outline of the AFRC’s Process for the Registration of Firm Names and Firms”](#) available on the AFRC’s website (www.afrc.org.hk).

Objectives for registration of firm names and firms

- The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accountancy profession is crucial for the business community and is essential for maintaining Hong Kong’s status as an international financial centre.
- Through the system of registration, the AFRC can ensure that firms which practise as an auditor comply with the registration requirements set out in the

AFRCO, which is important for promoting public confidence in the accountancy profession in Hong Kong.

Appointment or rendering service as an auditor

8. Only a CPA (practising), a CPA firm and a corporate practice may hold an appointment or render services, whether paid or unpaid, as:
- Section 20AAZZR of the AFRCO
- (a) an auditor of a company within the meaning of the Companies Ordinance (Cap. 622); or
- (b) unless otherwise exempted by the AFRC, an auditor of accounts for the purposes of any other Ordinance.
9. A CPA (practising) who intends to practise accountancy on the accountant's own account under a firm name must apply to the AFRC for registration of the firm name.
- Section 20AAS of the AFRCO
10. A firm of CPAs (practising) that intends to practise accountancy in partnership must apply to the AFRC for registration of the firm (including the firm name).
- Section 20AAS of the AFRCO
11. The applications under paragraphs 9 and 10 above must be made in the form and way specified by the AFRC and by accompanied by the fee specified in Schedule 3B (if any).
- Section 20AAS of the AFRCO

Eligibility for registration of a firm name or firm

12. An application for registration of a firm name or firm will not be granted unless the AFRC is satisfied that:
- Sections 20AAT, 20AAZD and 20AAZE of the AFRCO
- (a) the firm name under which the applicant intends to practise:
- (i) is not the same as a firm name already registered under the AFRCO;
- (ii) does not, in the opinion of the AFRC, so nearly resemble a firm name already registered under the AFRCO as to be likely to cause confusion; and
- (iii) is not, in the opinion of the AFRC, misleading, offensive or otherwise contrary to the public interest; and

- (b) if the applicant is a firm of CPAs (practising) that intends to practise accountancy in partnership:
 - (i) all the partners are CPAs; and
 - (ii) at least a proportion of the partners, as specified by the AFRC, is/are CPA (practising).
13. A person commits an offence if the person fraudulently procures the registration of a firm name or firm by means of any misleading, false or fraudulent representation or statement, whether made orally or in writing. Section 20AAZG of the AFRCO

Decision on the application

14. The AFRC will consider the information submitted by the applicant as well as any other available information in its possession and then make a decision on the application. The AFRC may: Sections 20AAT and 20AAZF of the AFRCO
- (a) grant the application; or
 - (b) refuse the application.
15. The AFRC will inform the applicant of its decision by written notice. The written notice will include a statement of reasons where the application is refused by the AFRC. An applicant who is aggrieved by a decision of the AFRC to refuse the application may apply to the Accounting and Financial Reporting Review Tribunal (“**Tribunal**”) for a review of the decision (see paragraph 32 below). Sections 20AAU and 37Q of the AFRCO

Validity of registration

16. If the AFRC approves the application, the AFRC will issue a certificate of registration to the applicant. Section 20AAV of the AFRCO
17. The registration of the firm name or firm takes effect on the day specified by the AFRC in the written notice and expires on 31 December of the year in which the registration takes effect. Section 20AAW of the AFRCO

Renewal

18. The registration is subject to annual renewal. A renewal application must be made by the CPA firm no later than 15 December of the year in which the current registration expires, unless the AFRC approves a later day. Sections 20AAW and 20AAX of the AFRCO

19. The AFRC will only grant a renewal application if it is satisfied that the CPA firm continues to meet all the requirements set out in paragraph 12 above. [Section 20AAY of the AFRCO](#)
20. The AFRC will consider the information submitted by the applicant as well as any other available information in its possession and then make a decision on the application. The AFRC may:
- (a) grant the application; or
 - (b) refuse the application.
21. The AFRC will inform the applicant of its decision by written notice. The written notice will include a statement of reasons where the application is refused by the AFRC. An applicant who is aggrieved by a decision of the AFRC to refuse the application may apply to the Tribunal for a review of the decision (see paragraph 32 below). [Sections 20AAZ and 37Q of the AFRCO](#)
22. If the AFRC approves the renewal application, the AFRC will issue a renewed certificate of registration to the applicant. The renewal will take effect on the day specified by the AFRC in the written notice and expires on 31 December of the year in which the renewal takes effect. [Sections 20AAZA and 20AAZC of the AFRCO](#)
23. Please note that the validity period of a current registration will be extended if the CPA firm has made a renewal application but the application is not finally determined before the expiry of the current registration. The current registration will remain in force until:
- (a) if the registration is renewed – the day on which the renewal takes effect; or
 - (b) if the renewal application is refused – the day on which the refusal takes effect.

Obligations of a CPA firm

Registered office

24. A CPA firm must have a registered office in Hong Kong to which all communications and notices may be addressed. [Section 20AAZK of the AFRCO](#)
25. A person who contravenes the above requirement without reasonable excuse commits an offence. [Section 20AAZK of the AFRCO](#)

Notification of changes in particulars

26. If there is a change in the full name, address of registered office, telephone number and/or electronic mail address of a CPA firm, the CPA firm must, within 14 days after the day on which the change takes place, inform the AFRC of the change by submitting a completed Form [*] to the AFRC. Section 20AAZL of the AFRCO
27. A person who contravenes the above requirement without reasonable excuse commits an offence. Section 20AAZL of the AFRCO

Revocation or suspension of registration on non-disciplinary grounds

28. The AFRC must revoke the registration of the firm name under which a CPA (practising) practises accountancy on the accountant's own account if: Section 20AAZH of the AFRCO
- (a) the accountant dies; or
 - (b) the accountant ceases to be a CPA (practising).
29. The AFRC must revoke the registration of a firm of CPAs (practising) that practises accountancy in partnership, and of the firm name under which the firm practises, if: Section 20AAZH of the AFRCO
- (a) the firm ceases to operate and the partnership is dissolved; or
 - (b) the firm ceases to be a firm of CPAs (practising).
30. The AFRC may also revoke or suspend the registration of a firm name or firm if: Section 20AAZH of the AFRCO
- (a) the CPA firm requests the AFRC to do so; or
 - (b) the AFRC is satisfied that the CPA firm has been registered:
 - (i) by mistake; or
 - (ii) in consequence of any misleading, false or fraudulent statement, declaration or representation, whether made orally or in writing.
31. The CPA firm will be informed of any such revocation or suspension by written notice with a statement of reasons for the decision. The certificate of registration issued to the CPA firm is cancelled with effect from the date on which the Sections 20AAZI, 20AAZJ and 37Q of the AFRCO

revocation takes effect, or is suspended during the period in which the suspension of registration is in effect. A CPA firm who is aggrieved by a decision of the AFRC to revoke or suspend the registration may apply to the Tribunal for a review of the decision (see paragraph 32 below).

Review of the AFRC's decision

32. Any person who is aggrieved by a decision of the AFRC made in relation to the person to:
- (a) refuse a registration or renewal application; or
 - (b) revoke or suspend the registration of a firm name or firm on non-disciplinary grounds,
- Sections 20AAT, 20AAZ, 20AAZH, 37M and 37Q of the AFRCO

may, within 21 days beginning on the day after a notice of the decision is issued by the AFRC, apply to the Tribunal for a review of that decision.

33. The Tribunal is independent of the AFRC. The Tribunal consists of a chairperson and two other ordinary members from the Tribunal panel, all of whom must not be public officers. The chairperson and members of the Tribunal panel must be appointed by the Chief Executive of the HKSAR.
- Section 37N and Schedule 4A of the AFRCO

34. The Tribunal may determine a review in relation to the decision by:
- (a) confirming, varying or setting aside the decision; or
 - (b) remitting the matter in question to the AFRC with any direction it considers appropriate.
- Section 37T of the AFRCO

35. If the decision is set aside, the Tribunal may make another decision it considers appropriate in substitution.
- Section 37T of the AFRCO

Appeal

36. If the AFRC or a party to a review is dissatisfied with the determination of the review made by the Tribunal, the person may, within 30 days after the day on which the determination is issued to the AFRC or the party, apply to the Court of Appeal for leave to appeal against that determination on a question of law and/or fact.
- Sections 37ZF and 37ZG of the AFRCO

37. Leave to appeal may only be granted if the Court of Appeal is satisfied that the appeal has a reasonable prospect of success or there are some other reasons in the interests of justice that the appeal should be heard. [Section 37ZG of the AFRCO](#)
38. On an appeal against a determination of the Tribunal, the Court of Appeal may: [Section 37ZH of the AFRCO](#)
- (a) allow the appeal;
 - (b) dismiss the appeal;
 - (c) vary or set aside the determination; or
 - (d) remit the matter in question to the Tribunal or the AFRCO with any direction it considers appropriate.
39. If a determination of the Tribunal is set aside, the Court of Appeal may make another determination it considers appropriate in substitution. [Section 37ZH of the AFRCO](#)

Disclaimer

40. This document provides a summary for reference only. It is not legal advice. Applicants should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 4F – Outline of the AFRC’s Process for the Registration of Firm Names and Firms

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is empowered to register firm names and firms under Division 2 of Part 2A of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. This document is intended to provide a brief outline of
 - (a) the application process in respect of:
 - (i) an application for registration of a firm name or firm; and
 - (ii) an application for renewal of registration of a firm name or firm; and
 - (b) the notification process in respect of a change in particulars of a CPA firm (as defined below).
3. For more information concerning the legal regime for the registration of firm names and firms (including eligibility requirements), please refer to the [“Policy Statement for the Registration of Firm Names and Firms”](#) available on the AFRC’s website (www.afrc.org.hk).

Definitions

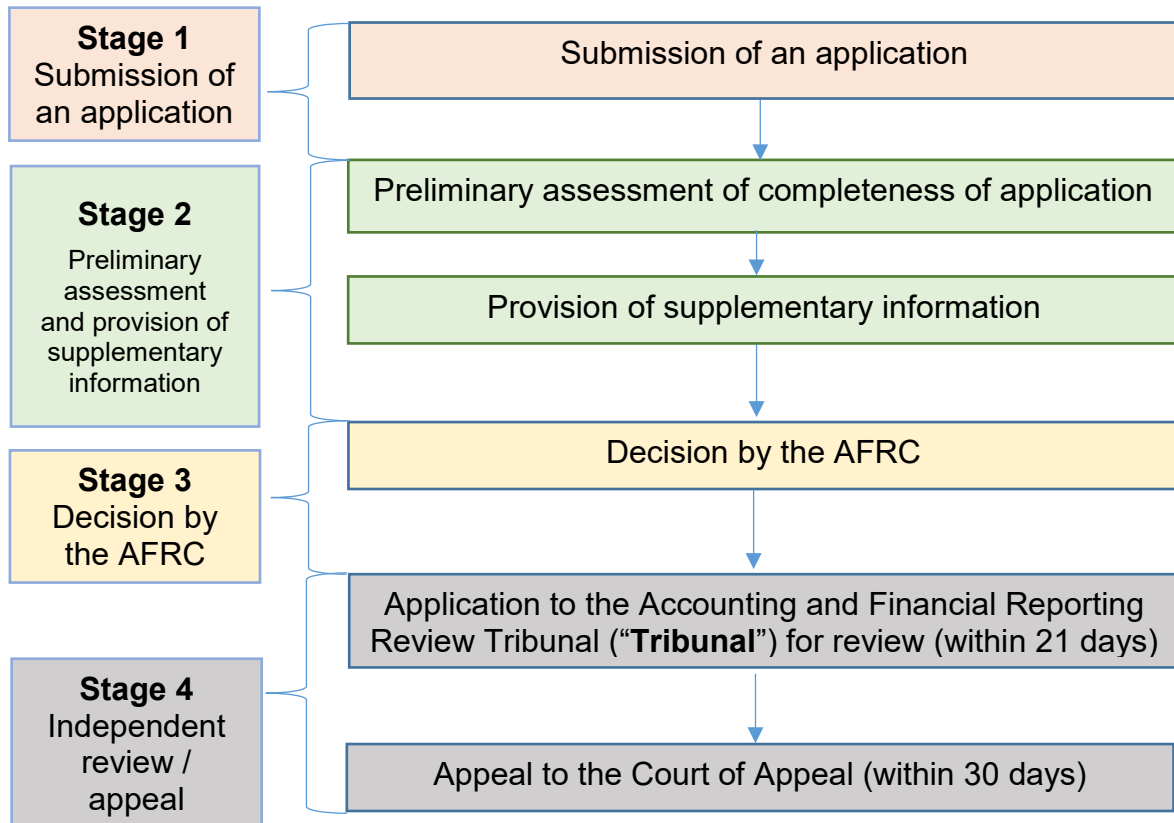
4. In this document, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
certified public accountant (“ CPA ”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50).	2(1)
certified public accountant (practising)	A CPA (practising) means a CPA holding a practising certificate.	2(1)

<p>(“CPA (practising)”)</p>		
<p>CPA firm</p>	<p>A CPA firm means:</p> <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or • a firm of CPAs (practising) that practises accountancy in partnership and is registered under Division 2 of Part 2A of the AFRCO. 	<p>2(1)</p>
<p>practising certificate</p>	<p>A practising certificate means a practising certificate issued under section 20AAD or 20AAI of the AFRCO.</p>	<p>2(1)</p>

Application process

5. The application process is the same for both types of applications set out in paragraph 2(a) above and can be summarized as follows:



Application for registration of a firm name or firm

Stage 1

Submission of an application

6. A CPA (practising) applying for registration of a firm name or a firm of CPAs (practising) applying for registration of a firm (including the firm name) is required to submit an application to the AFRC. In order to complete the application, the applicant will have to:
 - (a) complete the Application Form for Registration of a Firm (Form [*]); and
 - (b) provide all necessary supporting documents.
7. An applicant is required to provide the AFRC with all information that the AFRC reasonably requires to consider the application. Accordingly, before submitting the application the applicant should check that:
 - (a) all required fields in the applicable forms have been completed; and
 - (b) all necessary supporting documents have been provided.

Stage 2

- (i) *Preliminary assessment of completeness of application and provision of supplementary information*
8. The AFRC will first conduct a preliminary assessment on the application to check whether the information received is complete.
9. The AFRC may, where appropriate, require the applicant to provide supplementary information which the AFRC considers relevant to the application. Unless otherwise specified, the applicant is required to respond in writing within 10 business days of the date of the requirement.
10. If the applicant does not provide the required information to the AFRC within the stipulated deadline, the AFRC may proceed to make a decision on the application based on the evidence before it, and will likely refuse the application on the basis that there is insufficient information available for the AFRC to satisfy itself that the relevant requirements under the AFRCO have been met.

11. For the avoidance of doubt, in an appropriate case the AFRC may reject an application directly without requiring supplementary information from the applicant. The AFRC may do so where, for example, it is clear on the face of the application that the applicant does not meet the relevant requirements under the AFRCO.

(ii) Processing time

12. The AFRC will outline in its website the submission deadlines for which applications will be processed by a given point of time. Results will usually be available 10 weeks after the submission deadline, if the AFRC is satisfied that no supplementary information is required for the application.

13. Although the AFRC will strive to adhere to this timetable, the time it takes to process an application may vary depending on a number of factors such as:

- (a) the quality and completeness of the application;
- (b) the quality of the supporting documents;
- (c) the complexity of the application;
- (d) subsequent changes made to the application;
- (e) the time taken for other regulatory bodies to respond to vetting requests, where applicable; and
- (f) the number of applications the AFRC is processing at any particular time.

Stage 3

Decision by the AFRC

14. The AFRC will consider all available information in its possession (whether or not provided by the applicant) and then make a decision on the application.

15. The AFRC will inform the applicant of its decision by written notice. In this respect:

- (a) if the application is granted – the AFRC will issue a certificate of registration to the applicant. The certificate of registration will be available for collection at the AFRC's office on the day specified in the written notice; and

- (b) if the application is refused – the AFRC will provide reasons for the refusal in the written notice.

Stage 4

(i) Application to the Tribunal for review

- 16. An applicant who is aggrieved by a decision of the AFRC to refuse the application may apply to the Tribunal for a review of that decision.
- 17. The application for review must be made to the Tribunal in writing within 21 days after the AFRC issued the written notice to the applicant. This period may be extended by applying to the Tribunal and demonstrating a good cause.
- 18. The application for review must state the grounds for the application.

(ii) Appeal to the Court of Appeal

- 19. If a party to a review is dissatisfied with a determination of the Tribunal, an appeal can be made to the Court of Appeal on a question of law and/or fact. The party concerned must first apply to the Court of Appeal for leave to appeal within 30 days after the Tribunal issued the determination to the party.
- 20. Leave to appeal may only be granted if the Court of Appeal is satisfied that the appeal has a reasonable prospect of success or there are some other reasons in the interests of justice that the appeal should be heard.

Application for renewal of registration of a firm name or firm

Stage 1

(i) Submission of an application

- 21. A CPA firm intending to renew its registration is required to submit a renewal application to the AFRC. In order to complete the application, the applicant will have to:
 - (a) complete the application form; and
 - (b) provide all necessary supporting documents.

22. An applicant is required to provide the AFRC with all information that the AFRC reasonably requires to consider the application. Accordingly, before submitting the application the applicant should check that:
- (a) all required fields in the applicable forms have been completed; and
 - (b) all necessary supporting documents have been provided.
23. Under the AFRCO, the application should be made no later than 15 December of the year in which the current registration expires, unless the AFRC approves a later day. As the AFRC may require the provision of supplementary information (see Stage 2 below), the applicant is encouraged to submit the renewal application in advance of the statutory deadline. The AFRC will accept renewal applications from 1 November of each year.

Stage 2

- (i) *Preliminary assessment of completeness of application and provision of supplementary information*
24. The AFRC will first conduct a preliminary assessment on the application and may require the provision of supplementary information in the manner described in paragraphs 8-11 above.
- (ii) *Processing time*
25. Results will usually be available within 30 business days of the date of application, if the AFRC is satisfied that no supplementary information is required for the application. Although the AFRC will strive to adhere to this timetable, the time it takes to process an application may vary depending on a number of factors, including those set out in paragraph 13 above.

Stage 3

Decision by the AFRC

26. The AFRC will consider all available information in its possession (whether or not provided by the applicant) and then make a decision on the application.
27. The AFRC will inform the applicant of its decision by written notice. In this respect:

- (a) if the application is granted – the AFRC will issue a renewed certificate of registration to the applicant. The renewed certificate of registration will be available for collection at the AFRC’s office on the day specified in the written notice; and
- (b) if the application is refused – the AFRC will provide reasons for the refusal in the written notice.

Stage 4

(i) Application to the Tribunal for review

28. An applicant who is aggrieved by a decision of the AFRC to refuse the application may apply to the Tribunal for a review of that decision. The relevant procedures are set out in paragraphs 17-18 above.

(ii) Appeal to the Court of Appeal

29. If a party to a review is dissatisfied with a determination of the Tribunal, an appeal can be made to the Court of Appeal on a question of law and/or fact. The relevant procedures are set out in paragraphs 19-20 above.

Offence of fraudulent procurement of registration of firm name or firm

30. Under section 20AAZG of the AFRCO, a person commits an offence and is liable on conviction to a fine of HK\$25,000 and to imprisonment for 12 months if the person fraudulently procures the registration of a firm name or firm by means of any misleading, false or fraudulent representation or statement, whether made orally or in writing.

Notification of changes in particulars

31. If there is a change in the full name, address of registered office, telephone number and/or electronic mail address of a CPA firm, the CPA firm must, within 14 days after the day on which the change takes place, inform the AFRC of the change by submitting a completed Form [*] to the AFRC.

32. Before submitting the Form [*], the CPA firm should check that:

- (a) all required fields in the applicable forms have been completed; and
- (b) all necessary supporting documents have been provided.

33. Under section 20AAZL of the AFRCO, a person commits an offence and is liable on conviction to a fine of HK\$5,000 if the person, without reasonable excuse, fails to notify the AFRC as required.

Disclaimer

34. This document provides a summary of the AFRC's process for reference only. It is not legal advice. Applicants should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 4G – Policy Statement for the Registration of Corporate Practices

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. The AFRC is empowered to register companies as corporate practices under Division 3 of Part 2A of the AFRCO (“**corporate practices**”).

Definitions

3. In this Policy Statement, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
approved insurer	An approved insurer means an insurer who is approved by the Council of the HKICPA to provide professional indemnity insurance to a corporate practice.	20AAZY(2)
company	A company means a company within the meaning of section 2(1) of the Companies Ordinance (Cap. 622).	2(1)
certified public accountant (“ CPA ”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the PA Ordinance.	2(1)
certified public accountant (practising) (“ CPA (practising) ”)	A CPA (practising) means a CPA holding a practising certificate.	2(1)

CPA firm	A CPA firm means: <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or • a firm of CPAs (practising) that practises accountancy in partnership and is registered under Division 2 of Part 2A of the AFRCO. 	2(1)
HKICPA	HKICPA means the Hong Kong Institute of Certified Public Accountants incorporated by section 3 of the PA Ordinance.	2(1)
PA Ordinance	PA Ordinance means the Professional Accountants Ordinance (Cap. 50).	2(1)
practising certificate	A practising certificate means a practising certificate issued under section 20AAD or 20AAI of the AFRCO.	2(1)

Purpose of this document

4. The purpose of this Policy Statement is to provide an overview of the legal regime for the registration of corporate practices.
5. For an outline of the application and notification process, please refer to the ["Outline of the AFRC's Process for the Registration of Corporate Practices"](#) available on the AFRC's website (www.afrc.org.hk).

Objectives for registration of corporate practices

6. The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accountancy profession is crucial for the business community and is essential for maintaining Hong Kong's status as an international financial centre.
7. Through the system of registration, the AFRC can ensure that companies which practise as an auditor comply with the registration requirements set out in the

AFRCO, which is important for promoting public confidence in the accountancy profession in Hong Kong.

Appointment or rendering service as an auditor

8. Only a CPA (practising), a CPA firm and a corporate practice may hold an appointment or render services, whether paid or unpaid, as:
- (a) an auditor of a company within the meaning of the Companies Ordinance (Cap. 622); or
 - (b) unless otherwise exempted by the AFRC, an auditor of accounts for the purposes of any other Ordinance.
9. A company which intends to practise as an auditor must therefore apply to the AFRC for registration as a corporate practice.

Section
20AAZZR of
the AFRCO

Section
20AAZM of
the AFRCO

Eligibility for registration

Approval criteria

10. An application for registration as a corporate practice will not be granted unless the AFRC is satisfied that:
- (a) the applicant is a company limited by shares and of which every member and every director is a natural person;
 - (b) if the applicant has only one member, the member must be a CPA (practising) and the only director of the applicant;
 - (c) if the applicant has two or more members, all of the following conditions must be met:
 - (i) each member is a CPA;
 - (ii) at least a proportion of the members, as specified by the AFRC, is/are CPA (practising);
 - (iii) each member is a director of the applicant; and
 - (iv) no person other than a member of the applicant is a director of the applicant;

Sections
20AAZN and
20AAZX of
the AFRCO

- (d) the applicant meets the professional indemnity requirements set out in paragraph 12 below;
 - (e) the articles of association of the applicant comply with the requirements of the rules made under section 51 of the PA Ordinance and include articles that are appropriate to the applicant having regard to the requirements specified in (b) and (c) above; and
 - (f) the company name under which the applicant intends to practise:
 - (i) is not the same as a company name of a corporate practice already registered under the AFRCO;
 - (ii) does not, in the opinion of the AFRC, so nearly resemble a company name of a corporate practice already registered under the AFRCO as to be likely to cause confusion; and
 - (iii) is not, in the opinion of the AFRC, misleading, offensive or otherwise contrary to the public interest.
11. A person commits an offence if the person fraudulently procures the registration of the person or any other person as a corporate practice by means of any misleading, false or fraudulent representation or statement, whether made orally or in writing.

Section
20AAZZA of
the AFRCO

Professional indemnity requirements

12. The professional indemnity requirements will not be satisfied unless:
- (a) the applicant is to be or is covered by professional indemnity insurance provided by an approved insurer;
 - (b) the insurance is provided on terms specified in the Corporate Practices (Professional Indemnity) Rules issued by the HKICPA or on terms that have been approved by the Council of the HKICPA if the terms are not so specified; and
 - (c) the applicant is covered by the insurance at least to the extent required by the Corporate Practices (Professional Indemnity) Rules issued by the HKICPA.

Section
20AAZY of
the AFRCO

Decision on the application

13. The AFRC will consider the information submitted by the applicant as well as any other available information in its possession and then make a decision on the application. The AFRC may:
- (a) grant the application; or
 - (b) refuse the application.
14. The AFRC will inform the applicant of its decision by written notice. The written notice will include a statement of reasons where the application is refused by the AFRC. An applicant who is aggrieved by a decision of the AFRC to refuse the application may apply to the Accounting and Financial Reporting Review Tribunal (“**Tribunal**”) for a review of the decision (see paragraph 37 below).

Sections 20AAZN and 20AAZZ of the AFRCO

Sections 20AAZO and 37Q of the AFRCO

Validity of registration

15. If the AFRC approves the application, the AFRC will issue a certificate of registration to the applicant.
16. The registration of the corporate practice takes effect on the day specified by the AFRC in the written notice and expires on 31 December of the year in which the registration takes effect.

Section 20AAZP of the AFRCO

Section 20AAZQ of the AFRCO

Renewal

17. The registration is subject to annual renewal. A renewal application must be made by the corporate practice no later than 15 December of the year in which the current registration expires, unless the AFRC approves a later day.
18. The AFRC will only grant a renewal application if it is satisfied that the corporate practice continues to meet all the requirements set out in paragraph 10 above.
19. The AFRC will consider the information submitted by the applicant as well as any other available information in its possession and then make a decision on the application. The AFRC may:
- (a) grant the application; or
 - (b) refuse the application.

Sections 20AAZQ and 20AAZR of the AFRCO

Section 20AAZS of the AFRCO

Sections 20AAZS and 20AAZZ of the AFRCO

20. The AFRC will inform the applicant of its decision by written notice. The written notice will include a statement of reasons where the application is refused by the AFRC. An applicant who is aggrieved by a decision of the AFRC to refuse the application may apply to the Tribunal for a review of the decision (see paragraph 37 below). Sections 20AAZT and 37Q of the AFRCO
21. If the AFRC approves the renewal application, the AFRC will issue a renewed certificate of registration to the applicant. The renewal will take effect on the day specified by the AFRC in the written notice and expires on 31 December of the year in which the renewal takes effect. Sections 20AAZU and 20AAZW of the AFRCO
22. Please note that the validity period of a current registration will be extended if the corporate practice has made a renewal application but the application is not finally determined before the expiry of the current registration. The current registration will remain in force until: Section 20AAZV of the AFRCO
- (a) if the registration is renewed – the day on which the renewal takes effect; or
- (b) if the renewal application is refused – the day on which the refusal takes effect.

Obligations of a corporate practice

Registered office

23. A corporate practice must have a registered office (within the meaning of the Companies Ordinance (Cap. 622)) in Hong Kong to which all communications and notices may be addressed. Section 20AAZZE of the AFRCO
24. A person who contravenes the above requirement without reasonable excuse commits an offence. Section 20AAZZE of the AFRCO

Notification of changes in particulars

25. If there is a change in the full name, address of registered office, telephone number and/or electronic mail address of a corporate practice, the corporate practice must, within 14 days after the day on which the change takes place, inform the AFRC of the change by submitting a completed Form [*] to the AFRC. Section 20AAZZF of the AFRCO

26. A person who contravenes the above requirement without reasonable excuse commits an offence. Section 20AAZZF of the AFRCO

Cessation of compliance with certain requirements

27. If a corporate practice ceases to comply with any of the requirements set out in paragraphs 10(a) to (e) above, the corporate practice must, within 14 days after the day on which the cessation begins, inform the AFRC of the cessation by written notice. Section 20AAZZG of the AFRCO
28. On receipt of the notice, the AFRC may impose any condition in relation to the registration of the corporate practice for the purpose of requiring the practice to comply with the requirement concerned. The corporate practice commits an offence if it fails to comply with the condition imposed by the AFRC within the period specified by the AFRC without reasonable excuse. A corporate practice who is aggrieved by a decision of the AFRC to impose conditions may apply to the Tribunal for a review of the decision (see paragraph 37 below). Sections 20AAZZG and 37Q of the AFRCO

Proposed amendment to articles of association

29. If a corporate practice proposes to amend its articles of association (“**proposal**”), the corporate practice must inform the AFRC of the proposal by written notice to the AFRC. Section 20AAZZH of the AFRCO
30. The written notice must be sent to the AFRC no later than the day on which notice of the members’ meeting of the corporate practice for the proposal is given to the members of the corporate practice. Section 20AAZZH of the AFRCO
31. If the proposal is approved by passing a special resolution at the members’ meeting, the corporate practice must, within 21 days beginning on the date on which the special resolution is passed, inform the AFRC of the approval by submitting a written notice to the AFRC. Section 20AAZZH of the AFRCO
32. The AFRC may revoke or suspend the registration of the corporate practice if the corporate practice fails to notify the AFRC as required. The corporate practice will be informed of any such revocation or suspension by written notice with a statement of reasons for the decision. A corporate practice who is aggrieved by the AFRC’s decision to revoke or suspend the registration may apply to the Tribunal for a review of the decision (see paragraph 37 below). Sections 20AAZZH and 37Q of the AFRCO

Revocation or suspension of registration on other non-disciplinary grounds

33. The AFRC must revoke the registration of a corporate practice if the practice has commenced to be wound up. Section 20AAZZB of the AFRCO
34. The AFRC may revoke the registration of a corporate practice if the practice ceases to be a company described in paragraph 10(a). Section 20AAZZB of the AFRCO
35. The AFRC may also revoke or suspend the registration of a corporate practice if: Section 20AAZZB of the AFRCO
- (a) the practice requests the AFRC to do so; or
 - (b) the AFRC is satisfied that the practice has been registered:
 - (i) by mistake; or
 - (ii) in consequence of any misleading, false or fraudulent statement, declaration or representation, whether made orally or in writing.
36. The corporate practice will be informed of any such revocation or suspension by written notice with a statement of reasons for the decision. The certificate of registration issued to the practice is cancelled with effect from the date on which the revocation takes effect, or is suspended during the period in which the suspension of registration is in effect. A corporate practice who is aggrieved by the AFRC's decision to revoke or suspend the registration may apply to the Tribunal for a review of the decision (see paragraph 37 below). Sections 20AAZZC, 20AAZZD and 37Q of the AFRCO

Review of the AFRC's decisions

37. Any person who is aggrieved by a decision of the AFRC made in relation to the person to: Sections 20AAZN, 20AAZS, 20AAZZB, 20AAZZG, 20AAZZH, 37M and 37Q of the AFRCO
- (a) refuse a registration or renewal application;
 - (b) impose a condition in relation to the registration of a corporate practice; or
 - (c) revoke or suspend the registration of a corporate practice for failure to notify the AFRC in respect of amendment to its articles of association or on other non-disciplinary grounds,

may, within 21 days beginning on the day after a notice of the decision is issued by the AFRC, apply to the Tribunal for a review of that decision.

38. The Tribunal is independent of the AFRC. The Tribunal consists of a chairperson and two other ordinary members from the Tribunal panel, all of whom must not be public officers. The chairperson and members of the Tribunal panel must be appointed by the Chief Executive of the HKSAR. Section 37N and Schedule 4A of the AFRCO
39. The Tribunal may determine a review in relation to the decision by: Section 37T of the AFRCO
- (a) confirming, varying or setting aside the decision; or
 - (b) remitting the matter in question to the AFRC with any direction it considers appropriate.
40. If the decision is set aside, the Tribunal may make another decision it considers appropriate in substitution. Section 37T of the AFRCO

Appeal

41. If the AFRC or a party to a review is dissatisfied with the determination of the review made by the Tribunal, the person may, within 30 days after the day on which the determination is issued to the AFRC or the party, apply to the Court of Appeal for leave to appeal against that determination on a question of law and/or fact. Sections 37ZF and 37ZG of the AFRCO
42. Leave to appeal may only be granted if the Court of Appeal is satisfied that the appeal has a reasonable prospect of success or there are some other reasons in the interests of justice that the appeal should be heard. Section 37ZG of the AFRCO
43. On an appeal against a determination of the Tribunal, the Court of Appeal may: Section 37ZH of the AFRCO
- (a) allow the appeal;
 - (b) dismiss the appeal;
 - (c) vary or set aside the determination; or
 - (d) remit the matter in question to the Tribunal or the AFRC with any direction it considers appropriate.
44. If a determination of the Tribunal is set aside, the Court of Appeal may make another determination it considers appropriate in substitution. Section 37ZH of the AFRCO

Disclaimer

45. This document provides a summary for reference only. It is not legal advice. Applicants should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.

Document 4H – Outline of the AFRC’s Process for the Registration of Corporate Practices

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is empowered to register companies as corporate practices under Division 3 of Part 2A of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”) (“**corporate practices**”).
2. This document is intended to provide a brief outline of:
 - (a) the application process in respect of:
 - (i) an application for registration of a corporate practice; and
 - (ii) an application for renewal of registration of a corporate practice; and
 - (b) the notification process in respect of:
 - (i) a change in particulars of a corporate practice; and
 - (ii) a proposed amendment to the articles of association of a corporate practice.
3. For more information concerning the legal regime for the registration of corporate practices (including eligibility requirements), please refer to the [“Policy Statement for the Registration of Corporate Practices”](#) available on the AFRC’s website (www.afrc.org.hk).

Definitions

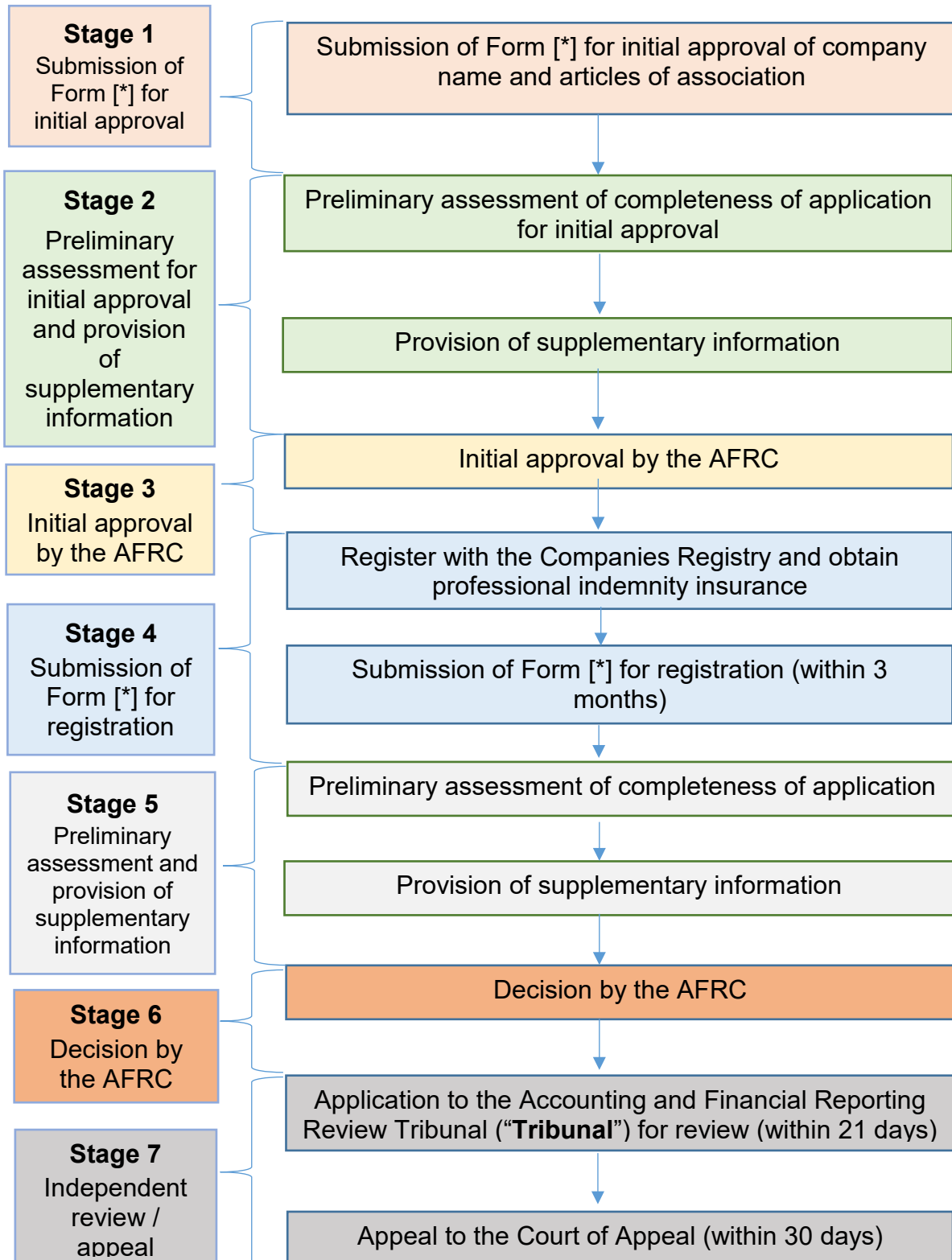
4. In this document, the following term has the meaning defined in the AFRCO as set out below (the definition in the AFRCO shall prevail in case of any inconsistency):

Terms	Meanings defined in the AFRCO	Section under the AFRCO
company	A company means a company within the meaning of section 2(1) of the Companies Ordinance (Cap. 622).	2(1)

Application for registration of a corporate practice

Application process

5. The application process can be summarized as follows:



Stage 1

Submission of Form [] for initial approval of company name and articles of association*

6. A company applying for registration as a corporate practice is required to first submit an application for initial approval of the proposed company name (“**proposed name**”) and articles of association to the AFRC. In order to complete the application, the applicant will have to:
 - (a) complete the Application Form for Registration of a Corporate Practice (For Initial Approval) (Form [*]); and
 - (b) provide all necessary supporting documents.
7. An applicant is required to provide the AFRC with all information that the AFRC reasonably requires to consider the application. Accordingly, before submitting the application the applicant should check that:
 - (a) all required fields in the applicable forms have been completed; and
 - (b) all necessary supporting documents have been provided.

Stage 2

- (i) Preliminary assessment of completeness of application for initial approval and provision of supplementary information*
8. The AFRC will first conduct a preliminary assessment on the application for initial approval to check whether the information received is complete.
9. The AFRC may, where appropriate, require the applicant to provide supplementary information which the AFRC considers relevant to the application for initial approval. Unless otherwise specified, the applicant is required to respond in writing within 10 business days of the date of the requirement.
10. If the applicant does not provide the required information to the AFRC within the stipulated deadline, the AFRC may proceed to make a decision on the application based on the evidence before it, and will likely refuse the application on the basis that there is insufficient information available for the AFRC to satisfy itself that the relevant requirements under the AFRCO have been met.

11. For the avoidance of doubt, in an appropriate case the AFRC may reject an application directly without requiring supplementary information from the applicant. The AFRC may do so where, for example, it is clear on the face of the application that the applicant does not meet the relevant requirements under the AFRCO.

(ii) Processing time

12. The AFRC will outline in its website the submission deadlines for which applications for initial approval will be processed by a given point of time. Results will usually be available 10 weeks after the submission deadline, if the AFRC is satisfied that no supplementary information is required for the application.

13. Although the AFRC will strive to adhere to this timetable, the time it takes to process an application may vary depending on a number of factors such as:

- (a) the quality and completeness of the application;
- (b) the quality of the supporting documents;
- (c) the complexity of the application;
- (d) subsequent changes made to the application;
- (e) the time taken for other regulatory bodies to respond to vetting requests, where applicable; and
- (f) the number of applications the AFRC is processing at any particular time.

Stage 3

Initial approval by the AFRC

14. The AFRC will consider all available information in its possession (whether or not provided by the applicant) and decide whether to grant initial approval to the proposed name and articles of association.

15. The AFRC will inform the applicant of whether initial approval is granted by written notice. In this respect:

- (a) if initial approval is granted – the applicant can proceed to the next stage of the application process; and

- (b) if initial approval is refused – the AFRC will provide reasons for the refusal in the written notice.

Stage 4

Submission of Form [] to apply for registration*

- 16. If initial approval is granted, the applicant is required to submit an application to the AFRC for registration as a corporate practice within three months from the date of the initial approval, and after:
 - (a) the applicant is registered with the Companies Registry; and
 - (b) the applicant has obtained the necessary professional indemnity insurance.
- 17. In order to complete the application, the applicant will have to:
 - (a) complete the Application Form for Registration of a Corporate Practice (Form [*]); and
 - (b) provide all necessary supporting documents.
- 18. An applicant is required to provide the AFRC with all information that the AFRC reasonably requires to consider the application. Accordingly, before submitting the application the applicant should check that:
 - (a) all required fields in the applicable forms have been completed; and
 - (b) all necessary supporting documents have been provided.

Stage 5

- (i) *Preliminary assessment of completeness of application and provision of supplementary information*
 - 19. The AFRC will first conduct a preliminary assessment on the application for registration and may require the provision of supplementary information in the manner described in paragraphs 8-11 above.
- (ii) *Processing time*
 - 20. Results will usually be available within 30 business days of the date of application (if the AFRC is satisfied that no supplementary information is required for the application) or 3 business days after the effective date of the professional

indemnity insurance cover, whichever is later. Although the AFRC will strive to adhere to this timetable, the time it takes to process an application may vary depending on a number of factors, including those set out in paragraph 13 above.

Stage 6

Decision by the AFRC

21. The AFRC will consider all available information in its possession (whether or not provided by the applicant) and then make a decision on the application for registration.
22. The AFRC will inform the applicant of its decision by written notice. In this respect:
 - (a) if the application is granted – the AFRC will issue a certificate of registration to the applicant. The certificate of registration will be available for collection at the AFRC's office on the day specified in the decision notice; and
 - (b) if the application is refused – the AFRC will provide reasons for the refusal in the written notice.

Stage 7

(i) Application to the Tribunal for review

23. An applicant who is aggrieved by a decision of the AFRC to refuse the application may apply to the Tribunal for a review of that decision.
24. The application for review must be made to the Tribunal in writing within 21 days after the AFRC issued the written notice to the applicant. This period may be extended by applying to the Tribunal and demonstrating a good cause.
25. The application for review must state the grounds for the application.

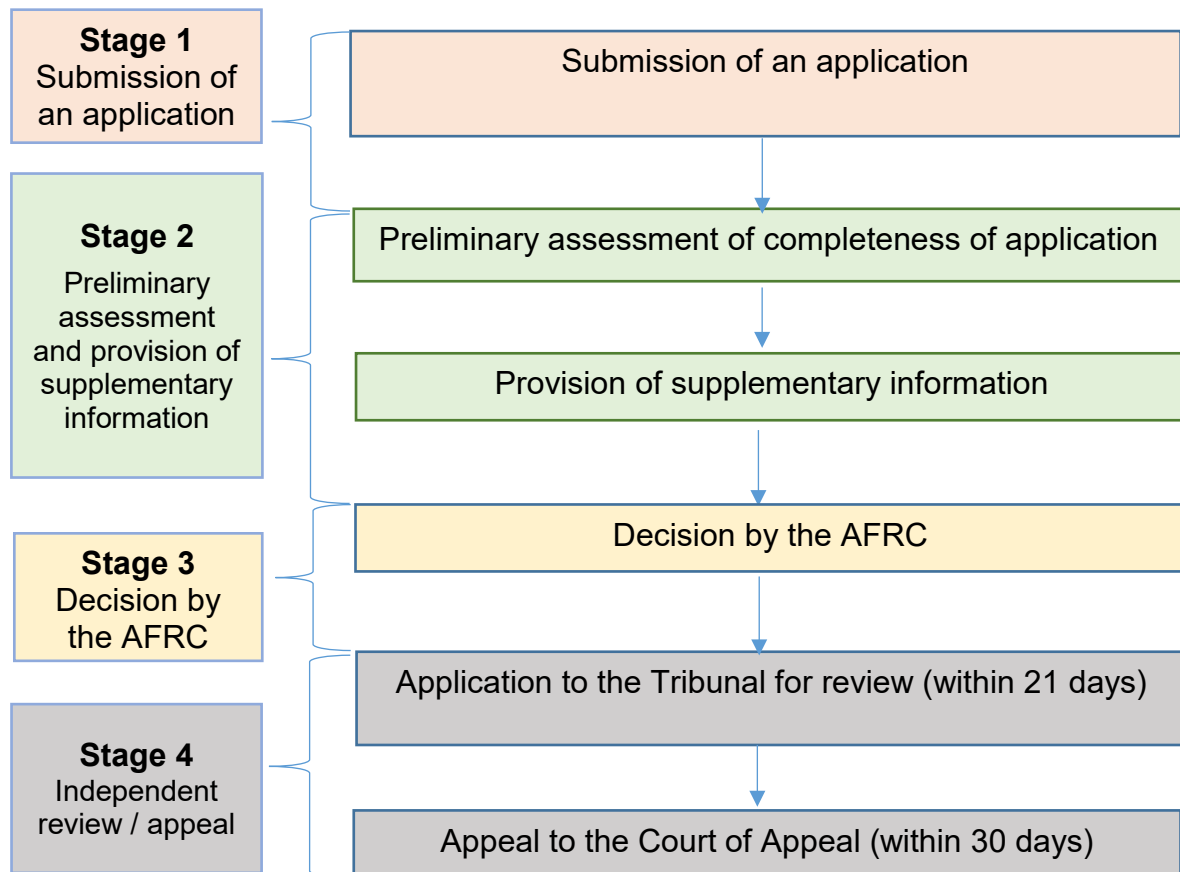
(ii) Appeal to the Court of Appeal

26. If a party to a review is dissatisfied with a determination of the Tribunal, an appeal can be made to the Court of Appeal on a question of law and/or fact. The party concerned must first apply to the Court of Appeal for leave to appeal within 30 days after the Tribunal issued the determination to the party.
27. Leave to appeal may only be granted if the Court of Appeal is satisfied that the appeal has a reasonable prospect of success or there are some other reasons in the interests of justice that the appeal should be heard.

Application for renewal of registration of a corporate practice

Application process

28. The application process can be summarized as follows:



Stage 1

Submission of an application

29. A corporate practice intending to renew its registration is required to submit a renewal application to the AFRC. In order to complete the application, the applicant will have to:

- (a) complete the renewal application form; and
- (b) provide all necessary supporting documents.

30. An applicant is required to provide the AFRC with all information that the AFRC reasonably requires to consider the application. Accordingly, before submitting the application the applicant should check that:
- (a) all required fields in the applicable forms have been completed; and
 - (b) all necessary supporting documents have been provided.
31. Under the AFRCO, the application should be made no later than 15 December of the year in which the current registration expires, unless the AFRC approves a later day. As the AFRC may require the provision of supplementary information (see Stage 2 below), the applicant is encouraged to submit the renewal application in advance of the statutory deadline. The AFRC will accept renewal applications from 1 November of each year.

Stage 2

- (i) *Preliminary assessment of completeness of application and provision of supplementary information*
32. The AFRC will first conduct a preliminary assessment on the application and may require the provision of supplementary information in the manner described in paragraphs 8-11 above.
- (ii) *Processing time*
33. Results will usually be available within 30 business days of the date of application, if the AFRC is satisfied that no supplementary information is required for the application. Although the AFRC will strive to adhere to this timetable, the time it takes to process an application may vary depending on a number of factors, including those set out in paragraph 13 above.

Stage 3

Decision by the AFRC

34. The AFRC will consider all available information in its possession (whether or not provided by the applicant) and then make a decision on the application.
35. The AFRC will inform the applicant of its decision by written notice. In this respect:
- (a) if the application is granted – the AFRC will issue a renewed certificate of registration to the applicant. The renewed certificate of registration will be

available for collection at the AFRC's office on the day specified in the decision notice; and

- (b) if the application is refused – the AFRC will provide reasons for the refusal in the written notice.

Stage 4

(i) Application to the Tribunal for review

- 36. An applicant who is aggrieved by a decision of the AFRC to refuse the application may apply to the Tribunal for a review of that decision. The relevant procedures are set out in paragraphs 24-25 above.

(ii) Appeal to the Court of Appeal

- 37. If a party to a review is dissatisfied with a determination of the Tribunal, an appeal can be made to the Court of Appeal on a question of law and/or fact. The relevant procedures are set out in paragraphs 26-27 above.

Offence of fraudulent procurement of registration of corporate practice

- 38. Under section 20AAZZA of the AFRCO, a person commits an offence and is liable on conviction to a fine of HK\$25,000 and to imprisonment for 12 months if the person fraudulently procures the registration of a corporate practice by means of any misleading, false or fraudulent representation or statement, whether made orally or in writing.

Notification of changes in particulars

- 39. If there is a change in the full name, address of registered office, telephone number and/or electronic mail address of a corporate practice, the corporate practice must, within 14 days after the day on which the change takes place, inform the AFRC of the change by submitting a completed Form [*] to the AFRC.
- 40. Before submitting the Form [*], the corporate practice should check that:
 - (a) all required fields in the applicable forms have been completed; and
 - (b) all necessary supporting documents have been provided.
- 41. Under section 20AAZZF of the AFRCO, a person commits an offence and is liable on conviction to a fine of HK\$5,000 if the person, without reasonable excuse, fails to notify the AFRC as required.

Notification of a proposed amendment to the articles of association of a corporate practice

42. If a corporate practice proposes to amend its articles of association (“**proposal**”), the corporate practice must inform the AFRC of the proposal by submitting a completed Form [*] to the AFRC.
43. The Form [*] must be sent to the AFRC no later than the day on which notice of the members’ meeting of the corporate practice for the proposal is given to the members of the corporate practice.
44. If the proposal is approved by passing a special resolution at the members’ meeting, the corporate practice must, within 21 days beginning on the date on which the special resolution is passed, inform the AFRC of the approval by submitting a completed Form [*] to the AFRC.
45. Before submitting the Forms [*], the corporate practice should check that:
 - (a) all required fields in the applicable forms have been completed; and
 - (b) all necessary supporting documents have been provided.
46. Under section 20AAZZH of the AFRCO, the AFRC may revoke or suspend the registration of the corporate practice if the corporate practice fails to notify the AFRC as required.

Disclaimer

47. This document provides a summary of the AFRC’s process for reference only. It is not legal advice. Applicants should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.