

Recognition of Overseas Auditors

Frequently asked questions

Public interest entity (PIE)

1. What is a PIE under the Financial Reporting Council Ordinance (Cap 588) (the FRCO)?

Pursuant to section 3(1) of the FRCO, a PIE is a public interest entity, which is either (a) a listed corporation whose listed securities comprise at least shares or stocks; or (b) a listed collective investment scheme.

2. Is an entity with only listed debts a PIE?

No. An entity with only listed debts without listed shares or stocks is not a PIE under section 3(1) of the FRCO.

PIE engagement

3. What is a PIE engagement under the FRCO?

Pursuant to Part 1 of Schedule 1A of the FRCO, a PIE engagement is any of the following types of engagement carried out by an auditor:

- (a) An auditor's report on a PIE's annual financial statements required by the Companies Ordinance (Cap 622), the Listing Rules¹ or any relevant code issued by the Securities and Futures Commission.
- (b) A specified report² required to be included in (i) a listing document for the listing of the shares or stocks of a corporation seeking to be listed or a listed corporation, or (ii) a listing document of a collective investment scheme seeking to be listed or a listed collective investment scheme.

¹ Listing Rules means 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 GEM 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.

² Specified report —

- (a) in relation to a prospectus issued by or on behalf of a listed corporation, means 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; (*Amended 28 of 2012 ss. 912 & 920*)
- (b) in relation to a listing document (other than a prospectus) issued by or on behalf of a listed entity, means 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.

- (c) An accountant's report required under the Listing Rules to be included in a circular issued by or on behalf of a PIE for a reverse takeover or a very substantial acquisition.

Recognized PIE auditor

4. If an overseas entity intends to appoint an overseas auditor to carry out a PIE engagement for it, is the overseas auditor required to be recognized as a PIE auditor under the FRCO?

Yes. Pursuant to section 20ZB of the FRCO, an overseas auditor must not undertake (i.e. accept an appointment) and carry out any PIE engagement for an overseas entity unless the auditor has been recognized as a PIE auditor of that entity by the FRC.

5. If an overseas entity intends to appoint joint auditors (e.g. a Hong Kong auditor registered by the Hong Kong Institute of Certified Public Accountants and an overseas auditor or two overseas auditors) to carry out a PIE engagement for it, is(are) the overseas auditor(s) required to be recognized as a PIE auditor under the FRCO?

Yes. The requirement under section 20ZB of the FRCO is applicable to any overseas auditor intending to accept an appointment to carry out a PIE engagement.

Validity of the recognition

6. In February 20X1, Auditor B is recognized as a PIE auditor of Entity A. In September 20X1, Entity A intends to appoint Auditor B to issue an accountant's report on a very substantial acquisition transaction. Does Entity A need to submit an application for recognition of Auditor B for carrying out the engagement in relation to the very substantial acquisition transaction?

No. The recognition of Auditor B as a PIE auditor of Entity A takes effect in 20X1 February and expires on 31 December 20X1. Entity A does not have to re-apply for recognition if Auditor B has already been recognized as a PIE auditor for carrying out a PIE engagement for Entity A in 20X1.

If Entity A expects that the very substantial acquisition transaction could not be completed by 31 December 20X1 and/or intends the appointment of Auditor B to continue beyond 31 December 20X1 into Year 20X2, Entity A is required to apply for renewal of the recognition no earlier than 30 September 20X1, and no later than 16 November 20X1.

7. Auditor B is a recognized PIE auditor of Entity A. Another overseas entity, Entity Y, intends to appoint Auditor B to carry out a PIE engagement. Can Entity Y appoint Auditor B without making an application to the FRC for the recognition of Auditor B as its PIE auditor?

No. The recognition of an overseas auditor is specific to the overseas entity who makes the application for recognition. Entity Y is required to make its own application for the recognition of Auditor B as its PIE auditor.

Transitional arrangement under section 90 of the FRCO

8. Entity Y is an overseas entity and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Entity Y intends to appoint Auditor X, an overseas auditor, to carry out an audit on its annual financial statements for the year ending 30 September 2019. The audit is expected to be completed on 31 December 2019.

What do Auditor X and Entity Y need to do for the recognition of Auditor X as a PIE auditor of Entity Y under the FRCO?

If Auditor X has accepted an appointment to carry out the audit for Entity Y before 1 October 2019:

Auditor X is required to complete the **Transitional Arrangement – Application Form** and indicate its intention to continue to carry out the audit for Entity Y after 1 October 2019 in section 3 of the application form, thereby becoming a recognized PIE auditor (provisional) under section 3A(1) of the FRCO. Overseas auditors are strongly encouraged to submit the **Transitional Arrangement – Application Form** to the FRC by 18 September 2019.

If Entity Y expects that the PIE engagement could not be completed by 31 December 2019 and/or intends the appointment of Auditor X to continue beyond 31 December 2019, Entity Y is required to make an application for Auditor X with the FRC no later than 16 November 2019. If such application is made, the provisional recognition of Auditor X as the PIE auditor of Entity Y will continue until the application is determined by the FRC (which may be after 31 December 2019).

If Auditor X has not accepted an appointment to carry out the audit for Entity Y before 1 October 2019:

Section 90 of the FRCO does not apply to Auditor X and Auditor X cannot be recognized as a recognized PIE auditor (provisional) under the transitional arrangement. Entity Y should make an application for Auditor X with the FRC as soon as possible such that the FRC could consider its application and grant an approval-in-principle after 1 October 2019. Auditor X may commit an offence under section 20ZD of the FRCO if it accepts an appointment for carrying out or carries out any PIE engagement for Entity Y on or after 1 October 2019 before an approval-in-principle is granted by the FRC.

For details of the application procedures, please refer to the FRC website at:
<https://www.frc.org.hk/en-us>

9. How can an overseas auditor fulfill the eligibility criterion under section 20ZF(2)(b)(i) of the FRCO, i.e. the overseas auditor is a member of an accountancy body that is a member of the International Federation of Accountants (IFAC)?

The overseas auditor concerned should be a member of/registered with an accountancy body in the home jurisdiction that is a member of the IFAC. The name of that accountancy body should be provided in the application form. The purpose of section 20ZF(2)(b)(i) is to ensure that the overseas auditor concerned is a qualified auditor recognised by the accountancy body in the home jurisdiction to practise audit. In the event that the overseas auditor is an audit firm/corporation and it is not a member of the accountancy body in the home jurisdiction, the eligibility criterion under section 20ZF(2)(b)(i) would normally be considered as having been fulfilled if a majority of the partners/directors of the audit firm/corporation are members of the accountancy body in the home jurisdiction that is a member of the IFAC.