

## Recognition of Overseas Auditors Policy Statement of the Financial Reporting Council

### 1. Introduction

- 1.1 The Financial Reporting Council (**the FRC**) is an independent body established under the Financial Reporting Council Ordinance (**the FRCO**). The FRC 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 sanction.
- 1.2 This document sets out the requirements for the recognition of overseas auditors under Division 3 of Part 3 of the FRCO. The requirements in this document are not applicable to the Mainland auditors endorsed in accordance with the mutual recognition agreement under section 20ZT of the FRCO.
- 1.3 In this document, the following terms have the meanings set out below:

<b>Terms</b>	<b>Meanings</b>
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
Listed entity	A listed corporation or a listed collective investment scheme
Overseas entity	A collective investment scheme constituted under the laws of any place outside Hong Kong; or a body corporate incorporated outside Hong Kong, whether or not the scheme or body is a listed entity.
Public interest entity (PIE)	Any listed entity <u>except</u> a listed corporation whose listed securities do not include shares or stocks. Thus: <ul style="list-style-type: none"> <li>- A listed collective investment scheme is always a PIE.</li> </ul>

Terms	Meanings
	<ul style="list-style-type: none"> <li>- A listed corporation with listed shares or stocks is also a PIE.</li> <li>- A listed corporation with listed debt securities but no listed shares or stocks is NOT a PIE.</li> </ul>
PIE engagement	<p>Any of the following types of engagement carried out by an auditor:</p> <ul style="list-style-type: none"> <li>- An auditor’s report on a PIE’s annual financial statements required by the Companies Ordinance (Cap 622), the Listing Rules or any relevant code issued by the Securities and Futures Commission;</li> <li>- A specified report 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;</li> <li>- 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.</li> </ul>
PIE auditor	<p>An auditor who carries out a PIE engagement.</p> <p>Under the FRCO, a PIE auditor is required to be registered by the Hong Kong Institute of Certified Public Accountants (for a Hong Kong PIE auditor), or recognised by the FRC (for a non-Hong Kong PIE auditor).</p>

- 1.4 Under section 20ZB(1) of the FRCO, an overseas auditor must not “undertake” (i.e. accept an appointment for carrying out) any PIE engagement for an overseas entity unless –
- (a) a recognition application has been made in relation to the overseas auditor; and

(b) the application has been granted.

1.5 Under section 20ZB(2) of the FRCO, an overseas auditor must not 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.

## 2. Application

### 2.1 Who should apply?

If an overseas entity proposes to appoint an overseas auditor to carry out a PIE engagement for it, the overseas entity must apply to the FRC for the recognition of the overseas auditor as a PIE auditor of the entity.

An application for recognition will not be granted unless:

(a) a statement of no objection is provided by:

- the Hong Kong Exchanges and Clearing Limited to a corporation<sup>1</sup>,  
or
- the Securities and Futures Commission to a collective investment scheme

for appointing an overseas auditor to carry out a PIE engagement for it; and such statement has not been withdrawn;

(b) the overseas auditor is a member of, or registered with, an accountancy body that is a member of the IFAC; and is subject to the regulation of an overseas regulatory organization recognized by the FRC; and

(c) the overseas auditor has adequate resources and possesses the capability to carry out a PIE engagement for the overseas entity.

Generally, an overseas regulatory organization is recognized by the FRC, if it is a member of the IFIAR; or from a jurisdiction which has attained equivalence status granted by the European Commission under Article 46 of the Statutory Audit Directive 2006/43/EC.

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<sup>1</sup> For details of the application of the statement of no objection provided by the Hong Kong Exchanges and Clearing Limited, please refer to the Frequently Asked Questions issued by The Stock Exchange of Hong Kong Limited at: [https://en-rules.hkex.com.hk/sites/default/files/net\\_file\\_store/new\\_rulebooks/f/a/FAQ\\_059-067-2019.pdf](https://en-rules.hkex.com.hk/sites/default/files/net_file_store/new_rulebooks/f/a/FAQ_059-067-2019.pdf)

## 2.2 How to apply?

An overseas entity is required to coordinate with the proposed overseas auditor to make an application.

For details of the application procedures and application forms, please refer to “Recognition of Overseas Auditors – Application and Renewal Procedures”.

## 3. **Validity of the recognition**

3.1 If the FRC approves the application, an approval-in-principle is granted by the FRC which is valid for 6 months from the date of the approval-in-principle being granted. The overseas auditor is recognized as a PIE auditor once the overseas entity has appointed the auditor and the auditor has undertaken the PIE engagement within the 6-month validity period.

3.2 If, by the end of the 6-month validity period, the overseas entity has not appointed the overseas auditor specified in the approval-in-principle to carry out a PIE engagement for it, or the overseas auditor has not undertaken the engagement, the overseas entity is required to make a fresh application if it subsequently proposes to appoint an overseas auditor.

3.3 The recognition of an overseas auditor is specific to the overseas entity who makes the application for recognition. Any other overseas entity proposing to appoint that particular overseas auditor to carry out a PIE engagement must make its own application for recognition.

3.4 The recognition expires on 31 December of the year in which the recognition takes effect.

## 4. **Renewal**

4.1 The recognition of an overseas auditor as a PIE auditor is renewable annually. The application must be made by the overseas entity no earlier than 3 months, and no later than 45 days, before the day on which the current recognition expires.

4.2 For details of the renewal procedures and application forms, please refer to “Recognition of Overseas Auditors – Application and Renewal Procedures”.

## **5. Termination of appointment of PIE auditor**

- 5.1 The recognition of a recognized PIE auditor is revoked, when the appointment of the auditor for carrying out a PIE engagement for the overseas entity is terminated. The overseas entity is required, within 14 days after the date of termination, to inform the FRC of the termination by written notice.

## **6. Failure to meet certain requirements after recognition**

- 6.1 If the overseas auditor recognized as a PIE auditor fails to meet a requirement specified in (b) and (c) under the section “Application” of this document, the overseas auditor is required, within 7 days after the day on which the failure begins, inform the FRC of the failure by written notice.

## **7. Notification of changes in particulars of PIE auditor**

- 7.1 If there is a change in the full name, business address, telephone number and/or electronic mail address of the overseas auditor recognized as a PIE auditor, the overseas auditor must, within 14 days after the day on which the change takes place, inform the FRC of the change by written notice.

## **8. Recognition conditions, revocation and suspension**

- 8.1 The FRC may impose any conditions or amend an existing condition in relation to the recognition of a PIE auditor of an overseas entity either at the time of granting an application, or at renewal or any time when the recognition remains valid.
- 8.2 The FRC may revoke or suspend the recognition of a PIE auditor of an overseas entity on non-disciplinary grounds under section 20ZS of the FRCO.
- 8.3 The overseas entity is informed by written notice with a statement of the reasons for the decision; and a copy of the notice is issued to its overseas auditor.

## **9. Levy payable by PIE auditors**

- 9.1 An overseas auditor recognized as a PIE auditor is required to pay an annual levy to the FRC, calculated in accordance with Schedule 7 of the FRCO. The FRC will notify the overseas auditors of the amount to be paid every year starting from 2022.