I refer to the email from Ms Wincey Lam, the Acting Chief Executive Officer of the FRC, on 14 March 2019 inviting comments regarding the Sanctions Guidelines. Set out below are my personal views in respect of the questions raised in the “List of questions for consultation” under the “Invitation to comment” section of the Sanctions Guidelines.

1. Do you agree with the FRC’s objectives of imposing sanctions as set out in paragraph 10? If not, please state the particular objective(s) that you do not agree with and the reasons for your disagreement.

I agree with the objectives of imposing sanctions set out in paragraph 10 of the Sanctions Guidelines and also agree with paragraph 11 that the primary purpose of imposing sanctions for misconduct is not to punish, but to protect the public and the wider public interest.

2. Do you agree with the FRC’s approach to determining sanctions summarised in paragraph 19? If not, please explain any alternatives you would propose and the reasons therefor.

I agree with the FRC’s approach in determining sanctions in paragraph 19 of Sanctions Guidelines.
3. Have we included the sorts of factors (paragraphs 21 to 24) in the Sanctions Guidelines that you would expect the FRC to consider in assessing the nature and seriousness of the misconduct and determining the sanctions to be imposed? Are there any other factors you believe the FRC should take into account when determining the sanctions to be imposed?

The factors set out in paragraphs 21 to 24 of the Sanctions Guidelines in assessing the nature and seriousness of misconduct and determining sanctions are appropriate and comprehensive. The following points could further be considered:

- paragraph 22(c) mentioned that in assessing the potential sanctions to impose, the financial benefits derived from a misconduct, which represent the "profits gained or losses avoided" by the regulated persons, shall be considered by reference to fees received, performance-related pay and share options received by the regulated persons. However, it is generally understood that financial benefits in terms of performance-related pay and share options are rarely relevant to independent auditors and as such it should be considered not to include in the Sanctions Guidelines. Also, only the income relating to assurance services received by regulated persons should be considered financial benefits.

In addition, the concept of "profits gained" has different calculations and definitions among different firms or even within a same firm for different types of engagements. As such, "profit calculation" is subjective and lacks consistency for a single misconduct, and it is suggested to further clarified in the Sanctions Guidelines if it is used as a basis of financial benefit indicator. The same comment also applies to the concept of "losses avoided".

- paragraph 22(d) mentioned that whether the misconduct caused or risked the loss of significant sums of money is also a factor to consider in assessing potential sanction. Such concept is acceptable, but should not be linked further to "reduction to market value or loss to creditors" which are irrelevant for auditor sanction determination purpose and also an imputation of auditor liability.

- paragraph 22(o) mentioned that the likelihood of future re-occurrence of same misconduct is one of the factor to consider. Further elaborations regarding how the FRC judges the likelihood of re-occurrence should be given in the Sanctions Guidelines.
4. Do you agree that the sanctions, including a pecuniary penalty, to be imposed by the FRC should act as an effective deterrent and be proportionate to the misconduct and have regard to all the circumstances of the case, including the financial resources of the regulated persons? If not, what would you propose? Please explain your rationale.

I agree that pecuniary penalty can be used as a deterrent to misconduct and the amount of which should be proportionate to misconduct, rather than as a punishment. The appropriate pecuniary sanction amount should be determined by reference to the principles and factors as set out in paragraphs 37 and 38 of the Sanctions Guidelines. A pecuniary penalty should be the last sanctions measures after reprimand, order to carry out remedial actions, revocation or suspension of Public Interest Entity ("PIE") auditor's registration or recognition and/or prohibition from applying as a registered or recognized PIE auditor etc.

While it is agreeable to paragraph 22(e) and paragraph 38(c) of the Sanctions Guidelines, which mentioned that the financial strength of the wrongdoers shall be considered in assessment of pecuniary sanctions, it must be considered together with all other relevant factors to avoid the perception that larger firms shall automatically subject to higher pecuniary amounts. Also, the assessment of financial strength of a wrongdoer is a subjective matter of fact judgment.

Finally, it would be helpful if the Sanctions Guidelines can further be elaborated on how a single misconduct can multi-impact, if any, the relevant signing partner, engagement quality control reviewer, the responsible person for quality control system and the firm as a whole, and what factors and the weighting of respective parties shall be considered by FRC, to avoid the likely effect of putting a regulated person in financial jeopardy as mentioned in paragraph 45 of the Sanctions Guidelines and avoid any duplication of sanctions on the individual person and the firm.

5. Do you agree with the factors set out in paragraphs 37 to 43 that the FRC will normally take into consideration when determining the amount of a pecuniary penalty? If not, please explain any alternatives you would propose and the reasons therefor.

I believe that the factors set out in paragraphs 37 to 43 of the Sanctions Guidelines in determining the amount of a pecuniary penalty are appropriate and comprehensive. The following points could further be considered:
• paragraph 39 mentioned that the revenue generated by the PIE auditor involved in the misconduct will be a factor to be considered when assessing the size of pecuniary penalty. While revenue can be an appropriate starting point for determination of the size of pecuniary penalty, the definition of revenue should be more clearly explained in the Sanctions Guidelines that (I) only assurance services revenue should be considered (not the total revenue which includes other non-assurance services income of the whole practice) (ii) the definition of assurance services revenue should be further elaborated (whether should exclude interim and quarter review fees or fees from non-assurance agree-upon procedures) (iii) the point of time when such revenue is taken for consideration of pecuniary penalty, as the recurring assurance service revenue of certain firms may fluctuate from year to year and (iv) in certain cases that the PIE auditors share assurance services revenue with its Mainland China counterpart, only the revenue received and receivable by the Hong Kong firm should be considered “revenue generated” under paragraph 39.

• paragraph 59 mentioned that failure to provide the level of co-operation required will be considered an aggravating factor at the point of determining appropriate sanction. It is noted that (i) the engagement of experts and legal advisors is necessary to assist in handling certain complicated cases, and (ii) involvement of an insurer in some cases may delay the response time in replying the FRC. As such, the aforesaid circumstances should not be strictly considered "not cooperative" under the Sanctions Guidelines.

6. Do you have any other comments on the Sanctions Guidelines that would help the FRC as an independent auditor regulator to protect the investing public and the public interest?

No further comment.

Please kindly treat my personal information confidential and not being published.

Best regards