

**Memorandum of Understanding between**  
**The Securities and Futures Commission**  
**and**  
**The Financial Reporting Council**

This Memorandum of Understanding (MOU) is entered into between the Securities and Futures Commission (SFC) of 8<sup>th</sup> floor, Chater House, 8 Connaught Road Central, Hong Kong, and the Financial Reporting Council (FRC) of 29<sup>th</sup> floor, High Block, Queensway Government Offices, 66 Queensway, Hong Kong.

**I. Interpretation**

1. Auditing or reporting irregularities mean relevant irregularities as defined by section 4 of the FRCO. For ease of reference, these are summarised at Schedule 1.
2. Council means the appointed and ex-officio members of the FRC.
3. Enquiries means enquiries initiated by the Council under section 40 of the FRCO.
4. FRCO means the Financial Reporting Council Ordinance, Cap.588.
5. SFO means the Securities and Futures Ordinance, Cap. 571.
6. Investigations means investigations initiated by the Council under section 23 of FRCO.
7. Non-compliance means relevant non-compliance as defined by section 5 of the FRCO. For ease of reference, these are summarised at Schedule 1.
8. Parties means the SFC and the FRC.

## **II. Introduction**

9. The SFC is the statutory body established under the repealed Securities and Futures Commission Ordinance, Cap. 24 and continued under the SFO. The SFC's main functions relevant to this MOU are to:

- a) maintain and promote the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry;
- b) provide protection for members of the public investing in or holding financial products; and
- c) minimize crime and misconduct in the securities and futures industry.

The SFC may investigate listed companies for fraud or misconduct, oppression of their members or failing to disclose all information their members might reasonably expect. It may also investigate crimes or misconduct involving financial products it regulates and those investigations may involve listed companies or auditors and reporting accountants of listed companies. The SFC also reviews listing applications and listed issuer disclosures in addition to the review of the Stock Exchange of Hong Kong Ltd. under the "dual filing" system. These may include information disclosed under relevant financial reporting obligations applying to listing applicants or listed issuers.

10. The FRC is a body corporate established pursuant to the FRCO. Its main functions are to investigate into auditing and reporting irregularities in relation to listed entities and to enquire into non-compliance with accounting requirement in relation to listed entities, prepare reports thereon and refer those reports to the appropriate regulatory bodies and agencies for appropriate follow-up action. The FRC performs these functions either on its own initiative or upon receipt of complaints. The FRC may conduct investigations or enquiries in its own right or may direct the Audit Investigation Board to do so in relation to relevant irregularities or appoint a Financial Reporting Review Committee to conduct enquiries in relation to relevant non-compliances.

## **Reasons for MOU**

11. Both the SFC and the FRC recognize the importance of ensuring the observance of proper standards by auditors and reporting accountants for listed entities and of proper standards of financial reporting of listed entities to the maintenance of investors' confidence in Hong Kong as an international financial centre. This MOU sets out the working arrangements between the two parties in order to reduce, as far as practicable, any duplication of efforts and to ensure efficient and effective co-operation and co-ordination of the parties' respective functions in relation to relevant irregularities and non-compliances in relation to listed entities.
12. If the Council initiates an investigation into the auditing irregularities in relation to a listed entity which is a licensed person within the meaning of section 1 of Part 1 of Schedule 1 to the SFO or a collective investment scheme authorized under section 104 of that Ordinance, the Council needs to give notice under section 24 of the FRCO to the SFC. The Council or the investigator appointed by the Council shall not exercise the powers vested in it by section 25, 26 and/or 28 of the FRCO for the purpose of the investigation without first consulting the SFC.
13. If the Council initiates an enquiry into non-compliances with accounting requirement on the part of a listed entity, which is a licensed person within the meaning of section 1 of Part 1 of Schedule 1 to the SFO or a collective investment scheme authorized under section 104 of that Ordinance, the Council needs to give notice under section 42 of the FRCO to the SFC. The Council or the enquirer appointed by the Council shall not exercise powers vested in it under section 43 of the FRCO for the purpose of the enquiry without first consulting the SFC.
14. This MOU also sets out the arrangements for the notification and consultation processes.

## **Cases of overlapping authority and matters of common interests**

15. Both parties recognize that there are areas in relation to the observance of proper standards for auditors and reporting accountants of listed entities, and, the

observance of accounting requirements by listed entities in which they have an overlapping remit in terms of their functions and powers. The SFC and the FRC will therefore endeavour to ensure that the party with the more appropriate functions and powers will take action in cases where the remits of the parties overlap or in cases in which the parties have a mutual interest.

16. Cases of mutual interest will be reviewed by the parties regularly to determine whether the lead responsibility for taking any necessary action should be with the SFC or the FRC.
17. In cases where the remits of the parties overlap, the parties will have regard to a principle that any auditors, reporting accountants or listed entities should not be subject to more than one proceeding for the same issue unless it is appropriate for the SFC and the FRC to exercise different powers or conduct different proceedings in relation to those persons and entities.
18. However, if either the SFC or the FRC is considering taking action and the other party is already taking action in relation to the same issue, the parties will liaise and discuss how best to handle the matter.

### **Conduct of concurrent investigations**

19. The parties recognize that where concurrent actions are taking place, action taken by one party can prejudice that of the other. Consequently, the parties will, when there are concurrent actions, notify each other of significant developments in their respective proceedings and of any significant steps they propose to take in the matter, such as:
  - a) interviewing a key witness;
  - b) requiring the provision of significant volumes of documents;
  - c) executing a search warrant; or
  - d) instituting proceedings or otherwise disposing of the matter.
20. If the parties identify that a particular action by one party might prejudice any actions by the other, they will discuss the matter and decide what action should

be taken and by whom. In reaching these decisions, they will bear in mind how the overall objectives of the parties are best served.

### **III. Co-operation**

21. If it comes to the knowledge of the SFC that there may be auditing or reporting irregularities or non-compliances, the SFC will make a complaint to the FRC. In making any such complaint, the SFC will bear in mind that the FRC is unable to exercise its compulsory powers unless it considers that there are circumstances suggesting a relevant irregularity or it appears to the FRC that there is or may be question whether or not there is a relevant non-compliance and will use its best endeavours to provide the FRC with all relevant information in its possession and the reasons why the SFC considers that it is appropriate for the FRC to take action. The SFC will use its best endeavours to provide at least the information specified in the complaint form set out on the FRC's web-site from time to time.
22. The FRC will cause the complaint to be reviewed as soon as practicable and the review should normally be completed within four weeks. After the completion of the review, a report will be submitted to the Council for a decision on what appropriate actions should be taken, which include the complaint not being pursued further, to initiate an investigation, or referring the complaint to other regulatory bodies for actions. Before the complaint is considered by the Council, there will be informal consultation between the staff of the SFC and the FRC. The FRC will inform the SFC of the decision if a complaint is not pursued further and the reason for that decision.
23. If, in the opinion of the Council, there is a sufficient basis to do so, investigations or enquiries will be conducted. The FRC will issue or adopt a report on each investigation or enquiry. If it is possible that any matters identified in the report may lead to any regulatory proceeding by the SFC, the matters will be referred to the SFC. If a report is to be referred to the SFC, the FRC will use its best endeavours to ensure that the report contains sufficient information and evidence in relation to any regulatory issues, to allow the SFC to take effective follow-up actions.

24. If it is the FRC's finding in any enquiry that there is a non-compliance, the FRC may consider exercising its powers under section 49 and/or section 50 to secure the removal of such non-compliance. The FRC agrees to keep the SFC informed when the exercise of such powers is under consideration if such non-compliance may also be a matter of regulatory proceeding by the SFC.
25. If it comes to the notice of the FRC, during the performance of its duties, that there is any matters which may be subject to regulatory proceedings by SFC, the matter will be referred to the SFC for follow-up actions.
26. Whenever the SFC is to pursue any action against any listed entity for non-compliance with accounting requirements, it will keep the FRC informed of the progress of that action.

#### **Notification and Consultation**

27. When the Council initiates an investigation or enquiry as mentioned in paragraphs 12 and 13 above, it shall give a written notice to the SFC as soon as practicable. The written notice will identify the listed entity concerned, provide brief reasons for the initiation of an investigation or enquiry (as the case may be) and specify the powers that are exercisable by the investigator or enquirer (as the case may be).
28. The written notice can be delivered by hand, mail, facsimile or email to the contact persons of the SFC (Annex 1). In normal circumstances, the contact persons of FRC (Annex 1) will communicate with the contact persons of SFC in advance.
29. If an investigator or enquirer intends to exercise the relevant powers mentioned in paragraphs 12 and 13 above, prior consultation with the SFC will be conducted as soon as practicable where circumstances require prior consultation with the SFC. The need for consultation will first be conveyed by the contact persons of the FRC to the contact persons of the SFC (Annex 1). It is advisable to have prior informal consultation between the contact persons.

30. Formal consultation can be effected through a meeting or by exchange of letters. The salient points discussed and the key issues agreed will also be documented.

### **Meetings**

31. The Executive Director of the Enforcement Division of the SFC and the Chief Executive Officer of the FRC (Annex 1) will meet at least once a year to review the functioning of this MOU and any significant matters arising in the preceding 12 months.
32. Ad hoc meetings may also be held as the need arises.

## **IV. Sharing of information**

33. Information will be provided by either the SFC or the FRC to the other party in accordance with the law. The recipient of information shall only use such information for the purpose of performing its legal functions.
34. For cases where urgent action is required, the SFC contact will be the Senior Director (Investigation) of the Enforcement Division. The FRC contact will be the Chief Executive Officer. (Annex 1)

### **Confidentiality**

35. Any information shared by the parties under this MOU shall be subject to obligations of professional secrecy and such statutory duties of confidentiality as may apply thereto. Each party will only disclose to a third party confidential information obtained from the other subject to the provisions of this paragraph, in which regard the receiving party:
  - a) will not, except when subject to a legally enforceable demand, make any disclosure of such information which is inconsistent with any laws or regulations applicable to the provision of such information by the other party;

- b) will endeavour to consult with the other party whenever it proposes to pass on any such information to a third party except for information disclosed in accordance with the SFO or the FRCO by

*the SFC to:*

- the Monetary Authority;
- the Chief Executive;
- the Financial Secretary;
- the Secretary for Justice;
- the Commissioner of Police of Hong Kong;
- the Commissioner of the Independent Commission Against Corruption;
- the Insurance Authority;
- the Registrar of Companies;
- the Official Receiver;
  
- the Mandatory Provident Fund Schemes Authority;
- Hong Kong Institute of Certified Public Accountants;
- the Privacy Commissioner for Personal Data;
- the Ombudsman;
- the Market Misconduct Tribunal;
- a public officer authorized by the Financial Secretary under section 378 of the SFO and section 51 of FRCO;
- an inspector appointed by the Financial Secretary to investigate the affairs of a corporation;
- a recognized exchange company;
- the Securities and Futures Appeals Tribunal;
- a recognized clearing house;

*the FRC to:*

- the Monetary Authority;
- the Chief Executive;
- the Financial Secretary;
- the Secretary for Justice;
- the Commissioner of Police of Hong Kong;
- the Commissioner of the Independent Commission Against Corruption;
- the Insurance Authority;
- the Registrar of Companies;
- the Official Receiver to the extent permitted by the FRCO;
  
- the Mandatory Provident Fund Schemes Authority;
- Hong Kong Institute of Certified Public Accountants;
- the Privacy Commissioner for Personal Data;
- the Ombudsman;
- the Market Misconduct Tribunal;
- a public officer authorized by the Financial Secretary under section 378 of the SFO and section 51 of FRCO;
- an inspector appointed by the Financial Secretary to investigate the affairs of a corporation;
- a recognized exchange company;
- the Secretary for Financial Services and the Treasury;
- the Commissioner of Inland Revenue.



- a recognized exchange controller;
  - a recognized investor compensation company;
  - a person authorized to provide authorized automated trading services under section 95(2) of the SFO.
- c) will endeavour to comply with any restrictions on the use of information that are imposed by the other party at the time when the information is provided; and
- d) will notify the other party whenever it receives a legally enforceable demand for any information supplied under paragraphs 33 to 35.

## **V. Further matters relating to this MOU**

36. This MOU does not modify or supersede any laws or regulatory requirements in Hong Kong. The MOU is a statement of intent of the parties and is not intended to create any binding legal obligations, to fetter the discretion of the parties in any way in the discharge of their functions or to create any rights in third parties.
37. The parties have also agreed to keep the MOU under review and will consult when necessary with a view to improving operations, resolving any matters and making any necessary amendments.

## **VI. SCHEDULE 1**

### **Auditing and reporting irregularities**

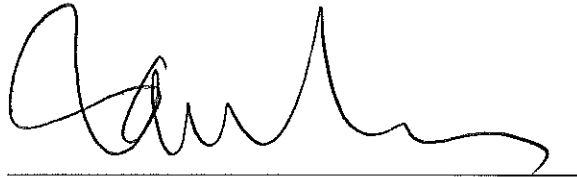
38. An auditing or reporting irregularity relates to an auditor in respect of the audit of the accounts of a listed corporation or a listed collective investment scheme or a reporting accountant in respect of the preparation of an accountant's report required for a listing document of a listed corporation or a listed collective investment scheme.
39. Conduct amounting to auditing or reporting irregularities includes but is not limited to –
- a) falsifying or causing to be falsified a document;
  - b) making a statement, in respect of a document, that was material and that he knew to be false or did not believe to be true;
  - c) negligence in the conduct of his profession;
  - d) professional misconduct;
  - e) doing or omitting to do something that would reasonably be regarded as bringing or likely to bring discredit upon the auditor or reporting accountant himself, the Hong Kong Institute of Certified Public Accountants (HKICPA) or the accountancy profession;
  - f) failing or neglecting to observe, maintain or otherwise apply a professional standard i.e. any (a) statement of professional ethics; or (b) standard of accounting, auditing and assurance practices, as issued or specified by the HKICPA Council from time to time; or
  - g) refusing or neglecting to comply with the provisions of any bylaw or rule made or any direction lawfully given by the HKICPA Council.

## **Non-compliance**

40. There is a relevant non-compliance if a relevant financial report of a listed corporation or a listed collective investment scheme has not complied with a relevant requirement.
41. In relation to a listed corporation, a relevant financial report means -
- a) a balance sheet and the profit and loss account and any group accounts, so far as not incorporated in the balance sheet or profit and loss account, annexed to it, a copy of which was sent to a person entitled to be sent the copy;
  - b) the accounts of the corporation a certified copy of which was delivered to the Registrar of Companies for registration;
  - c) a summary financial report a copy of which was sent to a person entitled to be sent the copy in place of a copy of the relevant financial documents;
  - d) a set of financial statements providing information on the results of the operations or cash flows of the corporation in a period of at least 3 months, providing information on the state of affairs of the corporation as at the end of that period, and issued, circulated, published or distributed for the purposes of the Listing Rules; or
  - e) an accountant's report required for a listing document.
42. In relation to a listed collective investment scheme, a relevant financial report means -
- a) a set of financial statements providing information on the results of the operations or cash flows of the scheme in a period of at least 3 months, providing information on the state of affairs of the scheme as at the end of that period, and issued, circulated, published or distributed for the purposes of the relevant SFC code or guideline or the Listing Rules; or
  - b) an accountant's report required for a listing document.

43. In relation to a listed corporation, relevant requirement means an accounting requirement as to the matters or information to be included in the report, as provided in -
- a) the Companies Ordinance (Cap.32);
  - b) the standards of accounting practices issued or specified by the Hong Kong Institute of Certified Public Accountants Council;
  - c) the International Financial Reporting Standards issued by the International Accounting Standards Board;
  - d) the Listing Rules; or
  - e) any generally acceptable accounting principles allowed for usage under the Listing Rules.
44. In relation to a listed collective investment scheme, relevant requirement means an accounting requirement as to the matters or information to be included in the report, as provided in -
- a) the standards of accounting practices issued or specified by the Hong Kong Institute of Certified Public Accountants Council;
  - b) the International Financial Reporting Standards issued by the International Accounting Standards Board;
  - c) the Listing Rules;
  - d) any generally acceptable accounting principles allowed for usage under the Listing Rules; or
  - e) the relevant SFC code or guideline.
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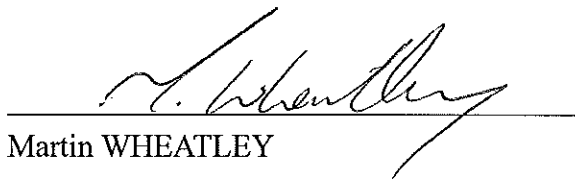
Signed for and on behalf of  
**THE FINANCIAL REPORTING COUNCIL**



M.T. SHUM  
Chief Executive Officer

Dated 12 Nov. 2007.

Signed for and on behalf of  
**THE SECURITIES AND FUTURES COMMISSION**



Martin WHEATLEY  
Chief Executive Officer

Dated 12th Nov 2007