

Frequently asked questions on recognition of overseas audit firms in relation to the amendments to the Financial Reporting Council Ordinance – Effective on 1 October 2019 (Released on 6 September 2019 / Last updated in January 2022)

Main Board Rules	GEM Rules	FAQ No.	Query	Response																		
4.03, 19.20, 19C.16	7.02, 24.13	059-2019	<p>As from 1 October 2019 (“Effective Date”), the amendments to the Financial Reporting Council Ordinance (Cap. 588) (“FRCO”) took effect and the Financial Reporting Council (“FRC”) became Hong Kong’s independent regulator of listed entity auditors.</p> <p>After the Effective Date, all audit firms intending to carry out a PIE Engagement are subject to a system of registration (for Hong Kong audit firms) and recognition (for non-Hong Kong audit firms) as PIE Auditors.</p> <p>Any non-Hong Kong audit firm is required to be recognized by the FRC before the audit firm can (i) “undertake” (i.e. accept an appointment to carry out) any PIE Engagement; and (ii) carry out any PIE Engagement for an overseas entity. Under the FRCO, the Exchange needs to issue a Statement of No Objection (“SNO”) before the FRC considers an application of the overseas audit firm to be recognized as a Recognized PIE Auditor. The overseas audit firm must not accept an appointment for carrying out any PIE Engagement for an overseas entity unless the application for recognition has been granted.</p> <p>(i) Which types of engagements fall within the PIE Engagements?</p>	<p>(i) In relation to equity issuers and applicants, the audit engagements falling within the PIE Engagements are summarized below:</p> <table border="1" data-bbox="1435 512 2058 970"> <thead> <tr> <th>Preparation of auditors’ or accountants’ report</th> <th>Is it a PIE Engagement?</th> </tr> </thead> <tbody> <tr> <td>Annual financial statements</td> <td>√</td> </tr> <tr> <td>Listing document</td> <td>√</td> </tr> <tr> <td>Very substantial acquisition</td> <td>√</td> </tr> <tr> <td>Reverse takeover</td> <td>√</td> </tr> <tr> <td>Major transaction</td> <td>×</td> </tr> <tr> <td>Very substantial disposal</td> <td>×</td> </tr> <tr> <td>Extreme transaction</td> <td>×</td> </tr> <tr> <td>De-SPAC transaction</td> <td>×</td> </tr> </tbody> </table> <p>For those engagements not falling within the PIE Engagements, such as accountants’ reports included in major transaction and very substantial disposal circulars, the Listing Rules continue to apply after the Effective Date. Therefore, it is at the Exchange’s discretion to accept an overseas audit firm as the reporting accountant under the Listing Rules and recognition with the FRC is not required.</p> <p>(ii) The FRC considers the recognition application of a non-Hong Kong audit firm on a case-by-case</p>	Preparation of auditors’ or accountants’ report	Is it a PIE Engagement?	Annual financial statements	√	Listing document	√	Very substantial acquisition	√	Reverse takeover	√	Major transaction	×	Very substantial disposal	×	Extreme transaction	×	De-SPAC transaction	×
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			(ii) On the appointment of a non-Hong Kong audit firm for the PIE Engagement, who should submit the formal application to the FRC?	<p>basis. Therefore, the application should be submitted by the overseas entity. Please see the table below:</p> <table border="1" data-bbox="1440 411 2056 774"> <thead> <tr> <th data-bbox="1440 411 1603 491">Location of audit firm</th> <th data-bbox="1610 411 2056 491">Application should be submitted by</th> </tr> </thead> <tbody> <tr> <td data-bbox="1440 496 1603 600">Overseas audit firm</td> <td data-bbox="1610 496 2056 600">Overseas entity, together with a SNO issued by the Exchange</td> </tr> <tr> <td data-bbox="1440 604 1603 774">Endorsed Mainland audit firm</td> <td data-bbox="1610 604 2056 774">Not applicable. <i>(Endorsed Mainland audit firms are recognized as a PIE Auditors without a recognition application being made to the FRC.)</i></td> </tr> </tbody> </table> <p><i>Notes:</i></p> <ol style="list-style-type: none"> <i>A public interest entity (PIE) is either (a) a listed corporation whose listed securities comprise at least shares or stocks; or (b) a listed collective investment scheme. Therefore, an entity with only listed debts without listed shares or stocks is not a PIE.</i> <i>For further details on the recognition of overseas audit firms, please refer to the FRC's website.</i> 	Location of audit firm	Application should be submitted by	Overseas audit firm	Overseas entity, together with a SNO issued by the Exchange	Endorsed Mainland audit firm	Not applicable. <i>(Endorsed Mainland audit firms are recognized as a PIE Auditors without a recognition application being made to the FRC.)</i>
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Overseas audit firm	Overseas entity, together with a SNO issued by the Exchange									
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4.03, 19.20, 19C.16	7.02, 24.13	060-2019	The overseas equity issuer or applicant must seek a SNO from the Exchange to engage an overseas audit firm to undertake its PIE Engagements. After the SNO is obtained, that issuer or applicant can submit the recognition application to FRC.	<p>SNO is granted on by a case-by-case basis.</p> <p>As set out in note 2 to Main Board Rule 4.03(1) (note 2 to GEM Rule 7.02(1)), we will issue a SNO if the overseas audit firm:</p>						

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			<p>What are the assessment criteria to be considered by the Exchange for the issue of a SNO?</p>	<p>(a) has an international name and reputation;</p> <p>(b) is a member of a recognized body of accountants; and</p> <p>(c) is subject to independent oversight by a regulatory body of a jurisdiction that is a full signatory to the IOSCO MMOU. It would be acceptable if the relevant audit oversight body is not a signatory to the IOSCO MMOU but the securities regulator in the same jurisdiction is a full signatory to the IOSCO MMOU.</p> <p>In this regard, the overseas equity issuers and applicants are reminded that they should plan their application ahead and allow sufficient time for them to seek the SNO and obtain the FRC's approval for recognition of a Recognized PIE Auditor.</p>
<p>4.03, 19.20, 19C.16</p>	<p>7.02, 24.13</p>	<p>061-2019</p>	<p>What information should be submitted to the Exchange when making an application for a SNO?</p>	<p>The SNO application must be made in writing. Based on all relevant facts and circumstances, the overseas equity issuer or applicant should provide an explanation, that supports the SNO application, and all other relevant information that it reasonably believes should be brought to the Exchange's attention, including but not limited to:</p> <p>(1) Details of the PIE Engagement (see FAQ No. 059-2019) and role of the overseas audit firm acting as:</p> <p>a. auditors; and/or</p> <p>b. reporting accountants.</p>

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				<p>(2) Information of the issuer or the applicant or the business, company or companies being acquired (collectively “target” in the case of an acquisition), including its name, address, place of incorporation and nature of the business of the group/target.</p> <p>(3) Information of the overseas audit firm, including:</p> <ul style="list-style-type: none"> a. having an international name and reputation; b. being a member of, or registered with, an accountancy body (<i>please specify the name of accountancy body in the home country</i>) that is a member of the International Federation of Accountants (IFAC) (<i>see note 1 below</i>); and c. being subject to independent oversight by a regulatory body of a jurisdiction (<i>please specify the name of regulatory body in the home country</i>) that is a signatory to the IOSCO MMOU (<i>see note 2 below</i>). <p>(4) Auditing and financial reporting standards adopted in relation to the PIE Engagement.</p> <p>(5) Reasons of why an overseas audit firm is needed to undertake the PIE Engagement (<i>see note 3 below</i>), such as:</p> <ul style="list-style-type: none"> a. the overseas audit firm has a geographical proximity and familiarity with the businesses of that overseas applicant or issuer or the target; and/or

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				<p>b. that overseas applicant or issuer or the target is listed on a Recognised Stock Exchange (as defined in Rule 1.01), and the overseas audit firm is the auditor of that overseas applicant or issuer or the target; and/or</p> <p>c. the overseas audit firm is the statutory auditor of that overseas applicant or issuer or the target.</p> <p><i>Note 1: A SNO issued by the Exchange is one of the eligibility criteria to be a Recognized PIE Auditor. There is no indication that the overseas audit firm mentioned in the SNO will be approved by the FRC, as the FRC has the following additional criteria:</i></p> <p>(a) <i>the overseas audit firm is subject to the regulation of an overseas regulatory organization recognized by the FRC; and</i></p> <p>(b) <i>the overseas audit firm has adequate resources and possesses the capability to carry out a PIE Engagement for the overseas entity.</i></p> <p><i>Generally, an overseas regulatory organization is recognized by the FRC, if it is a member of the International Forum of Independent Audit Regulators (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. For details, please refer to the FRC's website.</i></p> <p><i>Note 2: It would be acceptable if the relevant audit oversight body is not a signatory to the IOSCO MMOU</i></p>

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				<p><i>but the securities regulator in the same jurisdiction is a full signatory to the IOSCO MMOU.</i></p> <p><i>Note 3: The Exchange will consider exercising its discretion not to issue a SNO if the overseas issuer or applicant fails to satisfy the Exchange of its reasons for its engagement of an overseas audit firm to undertake the PIE Engagement.</i></p>
		062-2019	(FAQ withdrawn in January 2022)	(FAQ withdrawn in January 2022)
4.03	7.02	063-2019	<p>Main Board Rule 4.03 (GEM Rule 7.02) requires the reporting accountants to be normally qualified under the Professional Accountants Ordinance (Cap. 50).</p> <p>After the amendments to the FRCO became effective, is the overseas equity issuer or applicant still required to apply the waiver of Main Board Rule 4.03 (GEM Rule 7.02), in addition to seeking the SNO, when it proposes to appoint an overseas audit firm to act as a reporting accountant for its PIE Engagement?</p>	<p>Yes. After the Effective Date, the overseas equity issuer or applicant is still required to apply for this waiver to the Exchange together with its SNO application.</p> <p>We will grant this waiver subject to the overseas audit firm to be recognized by the FRC. The issuer or applicant should also disclose this waiver (including details and reasons) in its circular or listing document.</p>
19.20, 19C.16	24.13	064-2019	Before the amendments to the FRCO became effective, the overseas equity issuer needs to make an enquiry regarding its proposed appointment of an overseas audit firm as its auditor.	No. After the Effective Date, the overseas equity issuer only needs to submit the SNO application to the Exchange. We will arrange to issue a SNO if the overseas audit firm can satisfy the assessment criteria as set out in FAQ No. 060-2019.

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			<p>After the Effective Date, does the overseas equity issuer, for PIE Engagements, still need to make the enquiry, in addition to seeking the SNO, when it proposes to appoint an overseas audit firm to act as its auditor?</p>	<p><i>Note: For overseas audit firms who have already been recognized by the FRC as Recognized PIE Auditors, although the SNO is not required (see the example set out in FAQ No. 065-2019 (ii) below), the issuers are required to apply Main Board Rule 4.03 (GEM Rule 7.02) waiver or seek our consent under Main Board Rules 19.20(2) and 19C.16(2) (GEM Rule 24.13(2)) for the new engagement as required under the Listing Rules.</i></p>
4.03, 19.20, 19C.16	7.02, 24.13	065-2019	<p>Is an overseas equity issuer required to apply a “new” SNO in the following circumstances:</p> <p>(i) Annual renewal of the recognition (i.e. “same” overseas audit firm) to the FRC?</p> <p>(ii) To appoint an overseas audit firm (who is the auditors of the issuer) as its reporting accountants for a transaction circular, which falls within the PIE Engagements?</p> <p>(iii) To appoint “another” overseas audit firm as its auditors or reporting accountants for a transaction circular (which falls within the PIE Engagements)?</p>	<p>In the circumstances described:</p> <p>(i) No. The SNO is not required when applying for renewal of the recognition to the FRC.</p> <p>(ii) No. The SNO is not required. In addition, the issuer does not have to re-apply for recognition to the FRC when the recognition of that audit firm remains valid.</p> <p>(iii) Yes. The issuer should make a fresh recognition application, together with the SNO, to the FRC.</p>
4.03, 19.20, 19C.16	7.02, 24.13	066-2019	<p>Does an overseas equity issuer or applicant need to disclose the fact that its auditors or reporting accountants for a PIE Engagement are the Registered or Recognized PIE Auditors</p>	<p>Yes. It should disclose that fact.</p>

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			in the annual report, circular or listing document?	
4.03, 19.20, 19C.16	7.02, 24.13	067-2019	Does an overseas equity applicant need to disclose the name of the auditors after listing in the listing document?	<p>Yes. For clarity, the overseas applicant should disclose the name of its auditors after listing at the time of the publication of the listing document.</p> <p>In case where an overseas applicant engaged a Hong Kong audit firm to act as its reporting accountant for preparing the accountants' report in its listing document, but it intends to appoint an overseas audit firm as its auditors after listing, it should seek a SNO from the Exchange and submit a recognition application to the FRC. At the time of the publication of the listing document, if its application is under the FRC's consideration, that fact should be disclosed.</p>
4.03, 19A.08	7.02	076-2022	Is an equity issuer incorporated in the PRC (" PRC issuer ") permitted to appoint an overseas audit firm as its reporting accountant for the preparation of the accountants' report in a notifiable transaction circular relating to the acquisition of an overseas company (regardless of whether it constitutes a PIE Engagement)?	Yes. The PRC issuer is permitted to appoint an overseas audit firm to carry out an engagement in relation to the acquisition of an overseas company, provided that the PRC issuer seeks a waiver from strict compliance with Main Board Rule 4.03 (GEM Rule 7.02), and obtains a SNO (in the case of PIE Engagements) from the Exchange.

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