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Our Ref



28 November 2018

Dear Sirs

**Re: Consultation Paper on Proposal Relating to Listed Issuers with Disclaimer or Adverse Audit Opinion on Financial Statements**

KPMG welcomes the opportunity to respond to the Consultation Paper on Proposal Relating to Listed Issuers with Disclaimer or Adverse Audit Opinion on Financial Statements. Unless otherwise noted, terms used in our responses herein have the same meaning as those defined in the Consultation Paper.

We have considered the Exchange's proposals, and we support the proposal to address market concerns on problematic behaviours of listed issuers. We believe that these new Rules will enhance the quality and reliability of financial information published by the listed issuers, and uphold the quality and reputation of the Hong Kong stock market.

**Proposed rule relating to trading suspension of listed issuers with disclaimer or adverse audit opinion on financial statements**

We are supportive of the objectives of the new Rule. A disclaimer or adverse audit opinion on financial statements indicates that the risk of misstatements could be both material and pervasive, which would affect investors in assessing an issuer's performance and financial position and in making their investment decisions. Imposing a trading suspension for issuers who fail to provide quality and reliable financial information helps enhance investor protection and promote an orderly market.

Under the current Rules, a trading suspension is required if an issuer fails to publish its preliminary annual results announcement in a timely manner, with little regard as to the auditor's opinion on the published financial statements. Issuers making little or no progress on resolving the matters that trigger a disclaimer or adverse opinion are not subject to trading suspension for this reason alone. We believe that providing a definite timeframe for listed issuers to rectify and resolve the issues by applying the remedial period under the delisting Rules (18 months for Main Board issuers and 12 months for GEM issuers) could incentivise issuers to take a more proactive approach to address the issues.

We are supportive of the balanced approach taken by the new Rule to impose trading suspensions only for situations where a disclaimer or adverse opinion is expressed by auditors instead of extending to qualified audit opinions and clean opinions with emphasis of matter. A qualified opinion indicates that the misstatements are material but not pervasive, which applies to situations where the effects of misstatements on the financial statements are more confined. Investors could still make a reasonable and informed assessment of an issuer's performance and financial position based on the additional disclosures in audit opinion and financial statements. We are of the view that further extending the scope of the new Rule to cover all modified opinions would cause excessive interruptions to the market.



### **Proposed rule for trading resumption criteria**

Under the proposal, an auditor's comfort regarding the removal of disclaimer or adverse opinion may take the form of an audit of full set financial statements, a single financial statement (e.g. statement of financial position) or a specific element, account or item of a financial statement. We understand the rationale behind this proposal, but there could be practical difficulties for auditors to remove a disclaimer or adverse opinion without performing an audit of full set financial statements. Since a disclaimer or adverse opinions involve significant accounting issues which are both material and pervasive to the financial statements, we note that an audit of a single financial statement or a specific element of a financial statement may not be sufficient to assess whether the issues have been addressed. In this regard, we would recommend that this approach be adopted in limited circumstances only, for example, where it is apparent to the investors through other means of corporate disclosures that the issues have indeed been resolved by the issuers.

Yours faithfully

