

Hong Kong Exchanges and Clearing Limited
8th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

28 November 2018

Dear Sir

Consultation Paper on Proposal relating to Listed Issuers with Disclaimer or Adverse Audit Opinion on Financial Statements

On behalf of ACCA (the Association of Chartered Certified Accountants) Hong Kong, we would like to submit our response in respect of the abovementioned proposal for your kind consideration.

ACCA acknowledges that it is in the public interest to ensure the Listing Rules address developments in the market and align with international best practice in order to help promote investor confidence. It is also important to enhance investors' protection and maintain an orderly market by encouraging issuers with disclaimer or adverse audit opinions on their financial statements to take prompt actions to resolve any audit issue giving rise to the disclaimer or adverse audit opinion.

We therefore support, in principle, the proposal to require issuers to maintain appropriate and effective risk management and internal control systems, and where necessary, require them to act promptly to resolve the audit issues with their auditors, and suspend trading where the issuer is unable to do so.

Nevertheless, we would like to raise our concern regarding the proposed new Main Board Rule 13.50A (or GEM Rule 17.49B) to require immediate trading suspension where an issuer has published a preliminary results announcement and its auditor has issued, or has indicated that it will issue, a disclaimer or adverse opinion on the relevant financial statements. We anticipate that this could possibly create unintended disruptions and hence an adverse impact on the market. It could not only lead to the outstanding loans and liabilities of the issuer being immediately repayable on demand and further worsen the financial position of the issuer, but also penalise those small investors as they would not be able to liquidate their investments in the market. These possible impacts created to the issuers, investors and the market are significant and detrimental, which would exert undue pressure

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on external auditors when considering the types of modified audit opinions to be issued on their clients' financial statements.

The proposed requirement for trading resumption may also result in issuers delaying their preliminary annual results announcements rather than announcing annual results with a disclaimer or an adverse audit opinion within 3 months after the end of the financial year. The issuer can resume trading once it publishes an announcement of its preliminary results which have been agreed by its auditor, without the need to address the issues (publicly and/or privately to the Exchange) giving rise to a potential disclaimer or adverse opinion. We have doubt if this is against the best practice of encouraging timely disclosure of financial information to investors which is fundamental to investor protection.

It is stated under paragraph 32 of the consultation paper that the issuer is allowed to resume trading should it provide comfort that the disclaimer or adverse opinion would be removed. And paragraph 32(ii) states that this may involve a special engagement of the auditor to perform audit on a single financial statement of the issuer or a specific element, account or item of a financial statement. Nevertheless, we understand that Hong Kong Standard on Auditing 805 (Revised) that provides guidelines on audits of single financial statements and specific elements, accounts or items of a financial statement can only be used in limited circumstances, which may not be practically feasible in most circumstances. As a result, the only available option for an issuer to resume trading will probably involve a full financial year audit or a special interim audit of the issuer's full set of financial statements, the latter of which will undoubtedly add to the cost burden of the issuer.

In this regard, ACCA recommends that suspension of trading in an issuer's securities should only become effective when the issuer has published a preliminary audit results announcement and its auditor has issued, or has indicated that it will issue, a disclaimer or an adverse opinion on the issuer's financial statements for the **second consecutive year**. We are of the view that an issuer should be allowed a reasonable timeframe (the period between the two consecutive preliminary annual results announcements is considered adequate) to resolve the audit issues with its auditor and conduct a full audit exercise on the full set of financial statements for the next year before trading is suspended. This would allow their investors to liquidate their investments after the release of the first announcement with a disclaimer or an adverse opinion being indicated or issued. Provided that sufficient information regarding the financial position and audit issues of the listed issuer is disclosed to the market, investors would be able to make their informed assessment and decisions accordingly. However, for issuers who already have had a disclaimer or adverse opinion on their financial statements when the new rule becomes effective, we suggest that suspension of trading should be immediately effective when they publish preliminary annual results announcement and their auditors have issued or

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have indicated that they will issue a disclaimer or an adverse opinion on the financial statements.

We would also like to point out that the wordings used in the proposed Main Board Rule 13.50A (or GEM Rule 17.49B) in Appendix I of the consultation do not clearly spell out from whom the 'comfort that a disclaimer or adverse opinion in respect of such issues would no longer be required' should be provided. We recommend that the final wordings of any newly added Rules, if required, should not create any impression that the comfort should come from the auditors. It should clearly state that the comfort should come from and be provided by the issuer to the Exchange.

Should you wish to further discuss the issue in more details, please do not hesitate to contact myself at [REDACTED]

Yours faithfully

[REDACTED]

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