

**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, <del>19.47</del> <u>19C.16</u>	7.02, 24.13	059-2019	<p>As from 1 October 2019 (“<b>Effective Date</b>”), the amendments to the Financial Reporting Council Ordinance (Cap. 588) (“<b>FRCO</b>”) <del>take</del><u>took</u> effect and the Financial Reporting Council (“<b>FRC</b>”) <del>becomes</del><u>became</u> 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 (<del>“New Requirements”</del>).</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 (“<b>SNO</b>”) 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"> <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><u>De-SPAC transaction</u></td> <td><u>×</u></td> </tr> </tbody> </table> <p>For those engagements not falling <del>with</del><u>within</u> the PIE Engagements, such as accountants’ reports included in major transaction and very substantial disposal circulars, the <del>current</del> Listing Rules <del>and practice will</del> 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 <del>will consider</del><u>considers</u> the recognition application of a non-Hong Kong audit firm on a</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	×	<u>De-SPAC transaction</u>	<u>×</u>
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			<p>(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> <p><del>(iii) Will the Exchange update the Rule requirements relating to qualifications of auditors and reporting accountants?</del></p>	<p>case-by-case basis. Therefore, the application should be submitted by the overseas entity. Please see the table below:</p> <table border="1" data-bbox="1442 419 2056 778"> <thead> <tr> <th data-bbox="1442 419 1608 496">Location of audit firm</th> <th data-bbox="1608 419 2056 496">Application should be submitted by</th> </tr> </thead> <tbody> <tr> <td data-bbox="1442 496 1608 603">Overseas audit firm</td> <td data-bbox="1608 496 2056 603">Overseas entity, together with a SNO issued by the Exchange</td> </tr> <tr> <td data-bbox="1442 603 1608 778">Endorsed Mainland audit firm</td> <td data-bbox="1608 603 2056 778">Not applicable. <i>(Endorsed Mainland audit firms will <del>bear</del> be recognized as a PIE Auditors without a recognition application being made to the FRC.)</i></td> </tr> </tbody> </table> <p><del>(iii) Yes. The Exchange will monitor developments of the new regulatory regime for auditors of PIEs and prepare the consequential minor Rule amendments relating to qualifications of auditors and reporting accountants in this regard in due course.</del></p> <p><del>Equity issuers and applicants are required to comply with the New Requirements from the Effective Date.</del></p> <p><b>Notes:</b></p> <ol style="list-style-type: none"> <li><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></li> </ol>	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 will <del>bear</del> be recognized as a PIE Auditors without a recognition application being made to the FRC.)</i>
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				<p>2. <del>The registration of Hong Kong audit firms as PIE Auditors is under the responsibility of the Hong Kong Institute of Certified Public Accountants.</del></p> <p>3. <del>Further</del><u>For further</u> details on the recognition of overseas audit firms <del>can be accessed at, please refer to</del> the FRC's website <del>at: <a href="https://www.frc.org.hk/en-us/recognition-and-oversight">https://www.frc.org.hk/en-us/recognition-and-oversight</a>.</del></p>
4.03, 19.20, <del>19.47</del> <u>19C.16</u>	7.02, 24.13	060-2019	<p>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> <p>What are the assessment criteria to be considered by the Exchange for the issue of a SNO?</p>	<p>SNO is granted on by a case-by-case basis <del>because the suitability of reporting accountants and auditors are governed by.</del></p> <p><u>As set out in note 2 to Main Board Rule 4.03-(1) (note 2 to GEM Rule 7.02) and Main Board Rules 19.20 and 19.47 (GEM Rule 24.13) separately.</u></p> <p><del>Generally, with reference to the current Listing Rules,(1),</del> we will issue a SNO if the overseas audit firm <del>(see note below):</del></p> <p>(a) has an international name and reputation; <del>and</del></p> <p>(b) is a member of a recognized body of accountants; <u>and</u></p> <p><u>(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</u></p>

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				<p><u>securities regulator in the same jurisdiction is a full signatory to the IOSCO MMOU.</u></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><i>Note: <del>If the overseas equity issuer or applicant falls within the scope of the Joint Policy Statement (JPS) regarding the listing of overseas companies issued by the SFC and the Exchange (amended on 30 April 2018), the overseas audit firm should be also subject to independent oversight by a regulatory body of a jurisdiction that is a signatory to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (IOSCO MMOU) (paragraph 59 of the JPS).</del></i></p>
4.03, 19.20, <a href="#">19.47</a> <a href="#">19C.16</a>	7.02, 24.13	061-2019	What information should be submitted to the Exchange when making an application for a SNO?	<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>

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				<p>a. auditors; and/or b. reporting accountants.</p> <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> <p>a. having an international name and reputation;</p> <p>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</p> <p>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 (<del><i>only applicable to the overseas equity issuer or applicant that falls within the scope of the JPS, see FAQ No. 060-2019 above</i></del> <i>see note 2 below</i>).</p> <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 23</i></p>

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				<p><i>below</i>), such as:</p> <ol style="list-style-type: none"> <li>a. the overseas audit firm has <u>a</u> geographical proximity and familiarity with the businesses of <del>the</del><u>that</u> overseas applicant or issuer or <u>the</u> target; and/or</li> <li>b. <del>that overseas applicant or issuer or the target</del> is <del>primary</del> listed on a <del>stock exchange recognized by the</del> <u>Recognised Stock Exchange</u> (as <del>having a strong reputation for requiring high shareholder protection and corporate governance standards, defined in Rule 1.01</del>), and the overseas audit firm is the auditor <u>of that overseas applicant or issuer or the target</u>; and/or</li> <li>c. the overseas audit firm is <del>the</del> statutory auditor <u>of that overseas applicant or issuer or the target</u>.</li> </ol> <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> <ol style="list-style-type: none"> <li>(a) <i>the overseas audit firm is subject to the regulation of an overseas regulatory organization recognized by the FRC; and</i></li> <li>(b) <i>the overseas audit firm has adequate resources and possesses the capability to carry out a PIE Engagement for the overseas entity.</i></li> </ol>

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				<p>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 <del>at: <a href="https://www.frc.org.hk/en-us/recognition-and-oversight">https://www.frc.org.hk/en-us/recognition-and-oversight</a>.</del></p> <p><del>Note 2:</del> <u>Note 2: 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.</u></p> <p><u>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.</u></p>
<del>4.03, 19.20, 19.47</del>	<del>7.02, 24.13</del>	<del>062-2019</del>	<del>(FAQ withdrawn in January 2022) (i) Are there any transitional arrangement under the FRCO for an overseas auditor or reporting accountant who has accepted an appointment to carry out a PIE Engagement for an overseas issuer or applicant but not yet completed such PIE Engagement before the Effective Date of 1 October 2019?</del>	<del>(FAQ withdrawn in January 2022) (i) Yes. Section 90 of the FRCO sets out the following transitional arrangement which is applicable to an overseas auditor or reporting accountant who has accepted an appointment to carry out a PIE Engagement for an overseas issuer or applicant but not yet completed such PIE Engagement before 1 October 2019.</del> <p><u>By 18 September 2019 (where applicable)</u></p> <ul style="list-style-type: none"> <li><del>The overseas auditor or reporting accountant</del></li> </ul>

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			<p><del>(ii) A SNO is required for initial recognition application to the FRC. When an existing overseas issuer or applicant (who has already appointed an overseas auditor or reporting accountant) making the application of a SNO to the Exchange, does the relevant issuer or applicant need to submit the information as set out in FAQ No. 061-2019?</del></p>	<p><del>intending to continue to carry out the PIE Engagement for the overseas issuer or applicant should inform the FRC of such intention by written notice in a specified form, thereby becoming a Recognized PIE Auditor (provisional).</del></p> <p><del><b><i>By 16 November 2019</i></b></del></p> <p><del>• The overseas issuer or applicant is required to make an application for its overseas auditor or reporting accountant with the FRC no later than 45 days before 31 December 2019 (i.e. 16 November 2019) if it expects the PIE Engagement could not be completed by 31 December 2019 and/or intends the appointment of the overseas auditor or reporting accountant to continue beyond 31 December 2019. If such an application is made, the provisional recognition will continue until the application is determined by the FRC (which may be after 31 December 2019).</del></p> <p><del>— If the overseas audit firm has not accepted an appointment to carry out a PIE Engagement for the overseas entity but is expected to do so after 1 October 2019, the overseas entity is strongly encouraged to make an application for the recognition of its overseas audit firm with the FRC 45 business days before it appoints the overseas audit firm to allow for sufficient time for the FRC to consider the application. For details, please refer to the FRC's FAQ no. 8 at: <a href="https://www.frc.org.hk/en-us/Documents/recognition-and-oversight/FAQ.pdf">https://www.frc.org.hk/en-us/Documents/recognition-and-oversight/FAQ.pdf</a>.</del></p> <p><del>(ii) No. Since the relevant issuer or applicant has already appointed the overseas audit firm which is</del></p>



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				<del>acceptable to the Exchange before the Effective Date, when making the application of a SNO to the Exchange, it does not need to submit the information as set out in FAQ No. 061-2019, but should notify the Exchange of its intention to continue engaging that audit firm for its PIE Engagement after the Effective Date.</del>
4.03	7.02	063-2019	<p><del>Currently,</del> 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 <del>become</del><u>became</u> 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. <del>With effect from</del><u>After</u> 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, <del>together with the issue of the SNO,</del> 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> <p><del>We will update the relevant Rule requirement in due course.</del></p>
19.20, <del>19.47</del> <u>19C.16</u>	24.13	064-2019	<p><del>Currently</del><u>Before the amendments to the FRCO became effective,</u> the overseas equity issuer needs to make an enquiry regarding its proposed appointment of an overseas audit firm as its auditor <del>under Main Board Rules 19.20(2) and 19.47(2) (GEM Rule 24.13(2))</del>.</p> <p>After the <del>amendments to the FRCO become effective,</del> <u>will Effective Date, does</u> the overseas</p>	<p>No. <del>With effect from</del><u>After</u> the Effective Date, the overseas equity issuer <del>will only need</del><u>needs</u> 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.</p> <p><del>We will update the relevant Rule requirement in due course.</del></p>

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			equity issuer, for PIE Engagements, still need to make the enquiry <del>in relation to Main Board Rules 19.20(2) and 19.47(2) (GEM Rule 24.13(2))</del> , in addition to seeking the SNO, when it proposes to appoint an overseas audit firm to act as its auditor?	<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 <del>19.47</del><u>19C.16</u>(2) (GEM Rule 24.13(2)) for the new engagement as required under the Listing Rules.</i>
4.03, 19.20, <del>19.47</del> <u>19C.16</u>	7.02, 24.13	065-2019	Is an overseas equity issuer required to apply a “new” SNO in the following circumstances:  (i) Annual renewal of the recognition (i.e. “same” overseas audit firm) to the FRC?  (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?  (iii) To appoint “another” overseas audit firm as its auditors or reporting accountants for a transaction circular (which falls within the PIE Engagements)?	In the circumstances described:  (i) No. The SNO is not required when applying for renewal of the recognition to the FRC.  (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.  (iii) Yes. The issuer should make a fresh recognition application, together with the SNO, to the FRC.
4.03, 19.20, <del>19.47</del> <u>19C.16</u>	7.02, 24.13	066-2019	Does an <u>overseas</u> 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	Yes. <del>For clarity, the auditors’ or accountants’ report</del> <u>It should disclose that fact, or elsewhere in the annual report, circular or listing document, where appropriate.</u>

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4.03, 19.20, <u>19.47</u> <u>19C.16</u>	7.02, 24.13	067-2019	Does an <u>overseas</u> equity applicant need to disclose the name of the auditors after listing in the listing document?	<p>Yes. For clarity, the <u>overseas</u> 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>
<u>4.03, 19A.08</u>	<u>7.02</u>	<u>076-2022</u>	<u>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)?</u>	<u>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.</u>

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