

**Frequently asked questions on recognition of overseas audit firms ~~in relation to the amendments to under the Accounting and Financial Reporting Council Ordinance – Effective on 1 October 2019~~ (Released on 6 September 2019 / Last updated in ~~January 2022~~November 2023)**

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 (“<b>Effective Date</b>”), <del>the amendments to the Financial Reporting Council Ordinance (Cap. 588) (“<b>FRCO</b>”) took effect and the Accounting and Financial Reporting Council (“<b>AFRC</b>”) became Hong Kong’s independent regulator of listed entity auditors. <u>(see note 1 below).</u></del></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 <b>AFRC</b> 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 <u>Accounting and Financial Reporting Council Ordinance (Cap. 588) (“<b>AFRCO</b>”)</u>, the Exchange needs to issue a Statement of No Objection (“<b>SNO</b>”) before the <b>AFRC</b> 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) 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>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 <b>AFRC</b> is not required.</p> <p>(ii) The <b>AFRC</b> considers the recognition application</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	×
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	×																					

Main Board Rules	GEM Rules	FAQ No.	Query	Response						
			<p>(i) Which types of engagements fall within the PIE Engagements?</p> <p>(ii) On the appointment of a non-Hong Kong audit firm for the PIE Engagement, who should submit the formal application to the AFRC?</p>	<p>of a non-Hong Kong audit firm on a 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="1440 443 2058 807"> <thead> <tr> <th data-bbox="1440 443 1606 520">Location of audit firm</th> <th data-bbox="1610 443 2058 520">Application should be submitted by</th> </tr> </thead> <tbody> <tr> <td data-bbox="1440 523 1606 632">Overseas audit firm</td> <td data-bbox="1610 523 2058 632">Overseas entity, together with a SNO issued by the Exchange</td> </tr> <tr> <td data-bbox="1440 635 1606 807">Endorsed Mainland audit firm</td> <td data-bbox="1610 635 2058 807">Not applicable. <i>(Endorsed Mainland audit firms are recognized as a PIE Auditors without a recognition application being made to the AFRC.)</i></td> </tr> </tbody> </table> <p><b>Notes:</b></p> <p><u>1.</u> <i>After the further reform on 1 October 2022, the Financial Reporting Council was renamed as the AFRC and major regulatory powers in relation to the accounting profession had been transferred from the Hong Kong Institute of Certified Public Accountants to the AFRC, including, among others, the registration of Hong Kong audit firms.</i></p> <p><u>12.</u> <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></p> <p><u>23.</u> <i>For further details on the recognition of overseas</i></p>	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 AFRC.)</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 AFRC.)</i>									

Main Board Rules	GEM Rules	FAQ No.	Query	Response
				<i>audit firms, please refer to the <a href="#">AFRC's website</a>.</i>
4.03, 19.20, 19C.16	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 <a href="#">AFRC</a>.</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.</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> <ul style="list-style-type: none"> <li>(a) has an international name and reputation;</li> <li>(b) is a member of a recognized body of accountants; and</li> <li>(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.</li> </ul> <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 <a href="#">AFRC's</a> approval for recognition of a Recognized PIE Auditor.</p>
4.03, 19.20, 19C.16	7.02, 24.13	061-2019	What information should be submitted to the Exchange when making an application for a SNO?	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

Main Board Rules	GEM Rules	FAQ No.	Query	Response
				<p>attention, including but not limited to:</p> <ol style="list-style-type: none"> <li>(1) Details of the PIE Engagement (see FAQ No. 059-2019) and role of the overseas audit firm acting as: <ol style="list-style-type: none"> <li>a. auditors; and/or</li> <li>b. reporting accountants.</li> </ol> </li> <li>(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.</li> <li>(3) Information of the overseas audit firm, including: <ol style="list-style-type: none"> <li>a. having an international name and reputation;</li> <li>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</li> <li>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>).</li> </ol> </li> <li>(4) Auditing and financial reporting standards adopted in relation to the PIE Engagement.</li> </ol>

Main Board Rules	GEM Rules	FAQ No.	Query	Response
				<p>(5) Reasons of why an overseas audit firm is needed to undertake the PIE Engagement (see <i>note 3 below</i>), such as:</p> <ul style="list-style-type: none"> <li>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</li> <li>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</li> <li>c. the overseas audit firm is the statutory auditor of that overseas applicant or issuer or the target.</li> </ul> <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 AFRC, as the AFRC has the following additional criteria:</i></p> <ul 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 AFRC; 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> </ul> <p><i>Generally, an overseas regulatory organization is recognized by the AFRC, if it is a member of the</i></p>

Main Board Rules	GEM Rules	FAQ No.	Query	Response
				<p><i>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 <a href="#">AFRC's website</a>.</i></p> <p><i>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.</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 <del>that</del> the reporting accountants <del>to be</del> <u>must normally qualified under the Professional Accountants Ordinance (Cap. 50) be the Hong Kong audit firms registered as the practising accountants under the AFRCO.</u></p> <p>After the <del>amendments to the FRCO became</del> <u>eEffective Date</u>, is the overseas equity issuer or applicant still required to apply the waiver of Main Board Rule 4.03 (GEM Rule 7.02), in</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 <a href="#">AFRC</a>. The issuer or applicant should also disclose this waiver (including details and reasons) in its circular or listing document.</p>

Main Board Rules	GEM Rules	FAQ No.	Query	Response
			addition to seeking the SNO, when it proposes to appoint an overseas audit firm to act as a reporting accountant for its PIE Engagement?	
19.20, 19C.16	24.13	064-2019	<p>Before the <del>amendments to the FRCO became eEffective_Date</del>, the overseas equity issuer <del>needs-needed</del> to make an enquiry regarding its proposed appointment of an overseas audit firm as its auditor.</p> <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>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.</p> <p><i>Note: For overseas audit firms who have already been recognized by the AFRC 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 AFRC?</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>In the circumstances described:</p> <p>(i) No. The SNO is not required when applying for renewal of the recognition to the AFRC.</p> <p>(ii) No. The SNO is not required. In addition, the issuer does not have to re-apply for recognition to the AFRC 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 AFRC.</p>

Main Board Rules	GEM Rules	FAQ No.	Query	Response
			(iii) To appoint “another” overseas audit firm as its auditors or reporting accountants for a transaction circular (which falls within the PIE Engagements)?	
4.03, 19.20, 19C.16	7.02, 24.13	066-2019	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 in the annual report, circular or listing document?	Yes. It should disclose that fact.
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 AFRC. At the time of the publication of the listing document, if its application is under the AFRC’s consideration, that fact should be disclosed.</p>
4.03, 19A.08	7.02	076-2022	Is an equity issuer incorporated in the PRC (“ <b>PRC issuer</b> ”) permitted to appoint an overseas audit firm as its reporting accountant for the preparation of the accountants’ report in	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

Main Board Rules	GEM Rules	FAQ No.	Query	Response
			a notifiable transaction circular relating to the acquisition of an overseas company (regardless of whether it constitutes a PIE Engagement)?	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.

-- End --