

Frequently asked questions on recognition of overseas audit firms under the Accounting and Financial Reporting Council Ordinance (Released on 6 September 2019 / Last updated in 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 (“Effective Date”), the Accounting and Financial Reporting Council (“AFRC”) became Hong Kong’s independent regulator of listed entity auditors (<i>see note 1 below</i>).</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 AFRC 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 Accounting and Financial Reporting Council Ordinance (Cap. 588) (“AFRCO”), the Exchange needs to issue a Statement of No Objection (“SNO”) before the AFRC 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="1440 515 2056 970"> <thead> <tr> <th data-bbox="1440 515 1832 595">Preparation of auditors’ or accountants’ report</th> <th data-bbox="1843 515 2056 595">Is it a PIE Engagement?</th> </tr> </thead> <tbody> <tr> <td data-bbox="1440 603 1832 643">Annual financial statements</td> <td data-bbox="1843 603 2056 643">√</td> </tr> <tr> <td data-bbox="1440 651 1832 691">Listing document</td> <td data-bbox="1843 651 2056 691">√</td> </tr> <tr> <td data-bbox="1440 699 1832 738">Very substantial acquisition</td> <td data-bbox="1843 699 2056 738">√</td> </tr> <tr> <td data-bbox="1440 746 1832 786">Reverse takeover</td> <td data-bbox="1843 746 2056 786">√</td> </tr> <tr> <td data-bbox="1440 794 1832 834">Major transaction</td> <td data-bbox="1843 794 2056 834">x</td> </tr> <tr> <td data-bbox="1440 842 1832 882">Very substantial disposal</td> <td data-bbox="1843 842 2056 882">x</td> </tr> <tr> <td data-bbox="1440 890 1832 930">Extreme transaction</td> <td data-bbox="1843 890 2056 930">x</td> </tr> <tr> <td data-bbox="1440 938 1832 970">De-SPAC transaction</td> <td data-bbox="1843 938 2056 970">x</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 AFRC is not required.</p> <p>(ii) The AFRC 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	x	Very substantial disposal	x	Extreme transaction	x	De-SPAC transaction	x
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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 AFRC?	<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 2058 772"> <thead> <tr> <th data-bbox="1440 411 1606 488">Location of audit firm</th> <th data-bbox="1610 411 2058 488">Application should be submitted by</th> </tr> </thead> <tbody> <tr> <td data-bbox="1440 491 1606 596">Overseas audit firm</td> <td data-bbox="1610 491 2058 596">Overseas entity, together with a SNO issued by the Exchange</td> </tr> <tr> <td data-bbox="1440 600 1606 772">Endorsed Mainland audit firm</td> <td data-bbox="1610 600 2058 772">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><i>Notes:</i></p> <ol style="list-style-type: none"> <li data-bbox="1375 839 2069 1062">1. 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. <li data-bbox="1375 1098 2069 1286">2. 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. <li data-bbox="1375 1321 2069 1382">3. For further details on the recognition of overseas audit firms, please refer to the AFRC's website. 	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>
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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 AFRC.</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"> (a) has an international name and reputation; (b) is a member of a recognized body of accountants; and (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>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 AFRC's approval for recognition of a Recognized PIE Auditor.</p>
4.03, 19.20, 19C.16	7.02, 24.13	061-2019	<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>

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				<p>(1) Details of the PIE Engagement (see FAQ No. 059-2019) and role of the overseas audit firm acting as:</p> <ul style="list-style-type: none"> a. auditors; and/or b. reporting accountants. <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</p>

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				<p>to undertake the PIE Engagement (see <i>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 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 c. the overseas audit firm is the statutory auditor of that overseas applicant or issuer or the target. <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"> (a) <i>the overseas audit firm is subject to the regulation of an overseas regulatory organization recognized by the AFRC; and</i> (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><i>Generally, an overseas regulatory organization is recognized by the AFRC, if it is a member of the International Forum of Independent Audit Regulators</i></p>

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				<p><i>(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 AFRC'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 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 that the reporting accountants must normally be the Hong Kong audit firms registered as the practising accountants under the AFRCO.</p> <p>After the Effective Date, 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 AFRC. The issuer or applicant should also disclose this waiver (including details and reasons) in its circular or listing document.</p>

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19.20, 19C.16	24.13	064-2019	<p>Before the Effective Date, the overseas equity issuer needed 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>(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 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>

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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 (" 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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