

LATEST PROPOSAL TO REGAIN PUBLIC TRUST FOR ACCOUNTING PROFESSION

[Sam Sum]

Fundamental to the successful operation of the world's financial markets is investors' confidence, which is built up on having credible and reliable financial information for investors' capital allocation decision making. Outbreak of corporate scandals such as Enron and WorldCom in US and Euro-Asia and Guangan in Hong Kong are shaking the public confidence in the capital market system and the accounting profession.

Following the trend of reform driven by the US Sarbanes-Oxley Act, the European Commission for public oversight of auditors in the European Union ("EU") and the Technical Committee of the International Organization of Securities Commissions ("IOSCO"), the Hong Kong Society of Accountants ("HKSA") has to be dedicated to strike an equitable and cost effective balance between oversight and self-regulation in order to restore the public confidence.

With reference to the IOSCO and EU, two-phase approach reform, the HKSA's package of proposals, which the HKSA said was designed to improve the "transparency, independence and effectiveness" of any oversight of the profession compared with the traditions of self-regulation. While the first phase would be implemented as soon as practicable, the second phase is understandable needing a wider consultation exercise and a lengthier approval process.

First phase : More lay persons participation

	<u>Current</u>	<u>Proposal</u>
The Council ¹	16 members included 2 lay Government officials	23 members included 6 lay members appointed by the Government
Investigation Committees ²	3 members included the chairman and majority are the professional members	5 members with the majority of members (including the chairman) being lay persons. The chairman and members will be appointed by the Government.
	Confidential	Remain confidential
Disciplinary Committees	5 members included the chairman and majority are the professional members	3 (including the chairman) out of 5 members being lay persons. The chairman and members will be appointed by the Government.
	Confidential	Hearings opened to the public

¹ The governing body responsible for the overall direction, policies and operations of the HKSA.

² Deal with an investigation concerning alleged accounting, auditing and/or ethics irregularities

Second-phase : New investigation board

It is an optional proposal to establish an Independent Investigation Board (“IIB”) which is similar in some ways to a US-style oversight board. While the power of the Board is to investigate alleged accounting, auditing and/or ethics irregularities of listed companies by the HKSA members or member firms, non-listed companies would still under the hand of Investigation Committee as mentioned before. The three underlying principles for the establishment of the IIB are: a) majority lay membership; b) independent funding; and c) reasonable suspicion of a disciplinable offence under the Professional Accountants Ordinance.

Future prospects

Current proposals are not the ending of the reviews of HKSA self-regulatory process. HKSA, for instance, agrees the auditors of listed companies should be changed each five years. In order to closely connect with recent international developments concerning the oversight of accounting profession and what further Hong Kong needs changes, a special Task Force has been formed. It is also foreseeable that reforms of oversights on auditors are still on the move around world.