

HKEx announcement on accounting and auditing standards for mainland incorporated companies listed in Hong Kong

HKICPA Summary: Background, options and FAQs

Background

1. On the basis of the Mainland and Hong Kong accounting and auditing standards achieving convergence in December 2007, the relevant Mainland authorities and Hong Kong regulators jointly developed a “Proposed Framework for Implementing the Proposal to give Companies from the Mainland and Hong Kong the Choice to prepare Financial Statements under the Accounting Standards of the Home Jurisdiction and Audited by Auditors in the Home Jurisdiction for Listing in the Other Jurisdiction” in 2009.
2. The framework was formulated on the basis of reciprocity and was jointly developed by Hong Kong and Mainland regulators.
3. The Framework provides an option for Mainland incorporated Main Board and Growth Enterprise Market issuers to choose to prepare their financial statements (including those for Initial Public Offerings and periodic reports) using Mainland accounting standards and engage Mainland audit firms endorsed by the relevant Mainland authorities for auditing the financial reports.
4. The Framework also provides for a reciprocal arrangement which allows Hong Kong incorporated or registered companies listed in the Mainland to choose to prepare their financial statements (including those for IPOs and periodic reports) using Hong Kong Financial Reporting Standards / International Financial Reporting Standards, and audited by Hong Kong audit firms using Hong Kong Standards on Auditing or International Standards on Auditing.
5. The Scheme would enhance market efficiency, reduce the compliance costs of Mainland incorporated companies listing in Hong Kong, and help attract more Mainland company listings, benefitting Hong Kong’s development as China’s global financial centre and the premier capital formation platform in the Region.
6. HKEx conducted a public consultation on the proposed scheme in August 2009. The majority of the response received was supportive of the proposal.
7. HKEx and MoF announced the implementation of the Scheme on Friday, 10 December 2010 at 9:30 a.m.. The Scheme will take effect on 15 December 2010, and will be applicable to annual accounting periods ending on or after 15 December 2010.

Options for companies

What options does this announcement give to companies affected by it?

1. H share-only companies will have the option to move from HKFRS/IFRS to Chinese Accounting Standards for Business Enterprises (CASBE) for the preparation of their financial statements. They may also decide to continue to present HKFRS based and Hong Kong audited financial statements for their H share listing in Hong Kong.
2. A+H share companies may issue one set of financial statements (instead of two sets of financial statements) to both their H shareholders and A shareholders. These companies may choose to issue only the A share financial statements prepared under CASBE and audited by a mainland audit firm on the approved list. They may choose to continue to issue both. There should be no significant difference between the two financial statements. See [current status of convergence](#).
3. Whatever options the company might choose, it should consider more than ease of implementation and efficiency; it should, for example, consider what its shareholders want. Another consideration would be public and investor relations if the company has stakeholders beyond Hong Kong and mainland China.

Impact of the options:

4. If an issuer intends to change from International Financial Reporting Standards / HKFRS to mainland accounting standards, it would need to go through relevant procedures, such as seeking the approval from its shareholders as necessary, before it can effect the change. For example, for those A+H shares or H shares companies who have specified in their M&A that IFRS/HKFRS financial statements are required, they need to consider amending their M&A first.
5. Whichever option or route is taken, we recommend companies seek professional advice on the impact.

FAQs

Q1. Would the Scheme affect Hong Kong's auditing / financial reporting quality?

A1. The Scheme was developed on the basis that the accounting and auditing standards for business enterprises in the Mainland have converged with the financial reporting and auditing standards of Hong Kong. The financial reports will be subject to the same regulation and oversight by our regulators to ensure quality. Relevant regulatory authorities in Hong Kong and the Mainland have set up a cooperation mechanism for conducting post-endorsement regulation and investigation and they will maintain a close working relationship in ensuring smooth implementation of the Scheme.

Q2. The current financial year is coming to an end. Would the permission for issuers to prepare their financial statements under Mainland accounting standards for this financial year and have them audited by Mainland audit firms affect their financial reporting quality?

A2. Mainland's accounting standards have converged with HKFRS/IFRS, and the financial reporting would be subject to the same regulation and oversight by the relevant Hong Kong regulators. If an issuer intends to change from International Financial Reporting Standards / Hong Kong Financial Reporting Standards to Mainland accounting standards, it would need to go through relevant procedures, such as seeking the approval from its shareholders as necessary, before it can effect the change. For example, for those A+H shares or H shares companies who have specified in their M&A that IFRS/HKFRS financial statements are required, they need to consider amending their M&A first.

Q3. Will more Mainland audit firms be endorsed in future?

A3. According to the understanding between the relevant Hong Kong and Mainland authorities, there is no plan to endorse any additional Mainland audit firms in the next two to three years.

Q4. How many Mainland incorporated companies listed in Hong Kong would be eligible to use the Scheme?

A4. The Scheme would apply to around 160 Mainland incorporated companies listed in Hong Kong. They include about 60 A+H share companies and about 100 H share-only companies.

Q5. Which Mainland audit firms were endorsed by the Mainland authorities to provide auditing service to Mainland incorporated companies listed in Hong Kong?

A5. Please refer to HKEx's website for the list of 12 Mainland audit firms endorsed by the Mainland authorities under the Scheme. Basic information at the Mainland audit firms is available for public information at the "[Accountant and CPA of China](#)" website under the MoF.

Q6. Will the Scheme have any adverse impact on the Hong Kong accounting sector?

A6. The Scheme is reciprocal in nature with the objective of benefitting both the markets in Hong Kong and the Mainland.

While Mainland incorporated companies listed in Hong Kong can have the option to adopt the Mainland financial reporting / auditing standards, the same allowance would be extended to Hong Kong incorporated or registered companies when they list in Mainland markets in the future, enabling them to use Hong Kong accountants to prepare their financial reports using HKFRS / IFRS, and engage the service of Hong Kong audit firms to audit these financial reports using HKAS / ISA.

Also, one of the criteria designated by the Mainland authorities for approval of a Mainland audit firm for audit of a Mainland incorporated company listed in Hong Kong that it must have a member firm in Hong Kong or being under the same international accounting firm with one Hong Kong-based accounting firm (在香港發展有成員所或者與香港會計師事務所同屬某一國際會計公司的成員所).

Q7. What is the prospect and likely timing of Hong Kong companies getting listed in the Mainland, such that Hong Kong auditors can benefit from the new Scheme as well?

A7. The listing of Hong Kong companies in the Mainland would depend on specific policies and approval procedures to be formulated by relevant Mainland authorities. Also, relevant companies would take into account a host of factors including financing need and market condition. As China implements financial reforms, there will be closer links between the Hong Kong and Mainland markets. We understand that the Shanghai Stock Exchange has intention to establish the 'International Board'. We expect that the Hong Kong audit profession would benefit from the new Scheme. 香港企業到中國內地上市，需要內地有關當局訂立具體政策和審批程序，同時有關企業須視乎多項因素，包括融資需要及市場情況等而定。隨著國家金融改革，兩地市場關係越趨密切，據了解，上

海證券交易所所有意建立'國際板'。我們預期本港核數專業能受惠於新計劃。

Q8. What is the role of FSTB / Government in this exercise?

A8. FSTB facilitates and coordinates the discussion between the various Hong Kong regulators and the relevant Mainland authorities.