

International Regulatory Update

Hong Kong Stock Exchange (“HKEX”) Mandates Shareholder Approval to Curb “Auditor Shopping”

Effective April 2026 Update on Appointment, Removal and Remuneration of Auditors (FAQ 16 No. 5 (updated April 2026))

1. Purpose of the Update

The Hong Kong Exchanges and Clearing Limited (HKEX) has issued updated guidance and clarified Frequently Asked Questions (FAQ) to address concerns over **auditor shopping** (also known as opinion shopping). These measures aim to enhance transparency, protect shareholder rights, and safeguard the integrity of financial reporting in Hong Kong’s listed market.

The revisions close existing loopholes that allowed listed issuers to change auditors without adequate shareholder oversight, particularly through engineered resignations near reporting deadlines.

2. The Issue: Auditor Shopping in Hong Kong’s Listed Market

Auditor shopping occurs when listed companies pressure their external auditors to resign — often shortly before financial reporting deadlines — and replace them with a more compliant firm. This practice is frequently disguised as a dispute over audit fees, enabling the board to treat the resignation as a “casual vacancy” that can be filled by board resolution rather than a formal shareholder vote at a general meeting.

From a corporate governance perspective, such behaviour undermines auditor independence, reduces accountability, and erodes investor confidence in the quality and reliability of audited financial statements.

Historically, the Listing Rules (Main Board Rule 13.88 and GEM Rule 17.100, together with Appendix A1) permitted boards considerable flexibility in handling auditor resignations. While issuers must announce changes and disclose reasons (including any matters the outgoing auditor wishes to communicate to shareholders under Rule 13.51(4)), the mechanism for filling casual vacancies often bypassed immediate shareholder approval. Companies could pressure auditors into resigning, appoint a replacement via the board, and only seek routine ratification at the next annual general meeting (AGM) — by which time the critical audit work for the relevant period would largely be complete.

This created a clear loophole: management could effectively remove an auditor without real-time shareholder scrutiny, diminishing the audit committee’s oversight role and weakening the fundamental shareholder right to approve the appointment and removal of auditors.

The updated HKEX guidance directly addresses these concerns by reinforcing that shareholder approval at a

general meeting is required for auditor appointments and removals. Any company action that triggers or requests an auditor’s resignation will generally be treated as a formal removal, necessitating a shareholder vote. In addition, companies must provide clearer disclosure of specific audit fees (or reasonable fee ranges) to prevent vague “fee disputes” from serving as a pretext for changes.

These reforms align Hong Kong’s regime more closely with international best practices and strengthen the overall corporate governance framework.

3. Key Requirements under the Updated Guidance

- ❖ **Shareholder Approval Mandatory:** Appointment or removal of auditors must generally occur only at general meetings with shareholder approval.
- ❖ **Resignation Treated as Removal:** Any issuer request or action causing an auditor to resign (including pressure over fees) is regarded as a removal and requires a formal shareholder vote.
- ❖ **Enhanced Fee Disclosure:** Issuers must disclose specific audit fees or reasonable ranges to limit misuse of fee-related disputes.
- ❖ **Improved Transparency:** Announcements of auditor changes must include detailed reasons and any matters raised by the outgoing auditor.

4. Effective Date and Transition

The updated FAQ and guidance took effect in April 2026. Listed issuers are expected to comply immediately with any new auditor changes. HKEX will closely monitor compliance and may take regulatory action where disclosures are deficient or circumvention is suspected.

5. Implications for Listed Companies

- ❖ Audit committees and boards should engage early with auditors on fee setting and scope.
- ❖ Companies should avoid actions that could be interpreted as pressuring auditors near reporting deadlines.
- ❖ Greater emphasis is placed on robust audit committee oversight and timely resolution of audit issues.

This regulatory update reinforces HKEX’s commitment to high-quality financial reporting and long-term market integrity.

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