Financial Reporting Council

Third Country Auditor Registration - Consultation on proposed amendments to the FRC's Policy

Feedback Statement

July 2026

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Introduction and Background

1. The Financial Reporting Council (**FRC**) serves the public interest and supports UK economic growth by upholding high standards of corporate governance, corporate reporting, audit and actuarial work. This underpins trust and confidence in companies, whether from investors, creditors or employees, with this trust and confidence supporting the flow of capital, enabling investment and growth.

2. The Government is considering measures which could address current barriers for Chinese issuers to list Global Depository Receipts on the Shanghai/Shenzhen Stock Connect segment (**Stock Connect**) of the London Stock Exchange (**LSE**). In the context of this objective, the Government has asked the FRC to consider whether a temporary amendment to the FRC's policy could address current barriers to listing, while ensuring that the FRC's statutory responsibilities for audit quality and investor protection continue to be met.

3. It should also be noted that Chinese Standards on Auditing (**CSAs**) have not been assessed by the FRC as equivalent to International Standards on Auditing (**ISAs**) and are not endorsed for general use in the audits of UK-listed entities.

4. The FRC launched its consultation[1], "*Third Country Auditor Registration - Consultation on proposed amendments to the FRC's policy*" on 16 February 2026 (**Consultation**). The Consultation sought views on a proposed temporary amendment (**Proposed Amendment**) to the FRC's policy on the registration of Third Country Auditors[2] (**TCA**). This would enable audits of China-registered entities, listed on the Stock Connect segment of the LSE (**Stock Connect Audits**), to be undertaken in accordance with CSAs.

5. Having considered the content of certain responses to the Consultation, we determined that it may assist stakeholders if specific points of technical detail, regarding the current operation of the TCA regime, are reiterated.

Legislative background

6. In accordance with the Statutory Auditors and Third Country Auditors Regulations 2013 (**SATCAR 2013**) the FRC is the "designated body" tasked with keeping a Register of TCAs for the purposes of Section 1239(1) of the Companies Act 2006. In this regard, the FRC is responsible for the registration and oversight of TCAs who audit the annual financial statements of entities which issue securities admitted to trading on UK regulated markets.

7. Under delegated statutory powers[3], the FRC issues Directions (**TCA Directions**) that disapply certain of the detailed requirements for TCA registration, oversight, independent monitoring and compliance, which are set out in Section 1239 and Section 1242 of the Companies Act 2006, and SATCAR 2013.

1 https://www.frc.org.uk/documents/9125/Third_Country_Auditor_Registration_Consultation.pdf
2 See Section 1241 Companies Act 2006
3 Ss.1239(7) & 1242(4) of the Companies Act 2006 and Regulation 7(1) of The Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012.

8. As explained at paragraph 7.10 of the Appendix to the Consultation, the UK operates a risk-based regime for the oversight of TCAs. Paragraph 7.11 of the Appendix summarised the existing exemptions applied to TCAs from "equivalent" jurisdictions[4].

Auditing standards

9. The FRC requires TCAs to apply auditing standards which the FRC considers are acceptable for UK-listing purposes, and the FRC issues policy and guidance setting out the detailed requirements for TCA registration and oversight under delegated statutory powers.

10. Under the current FRC policy, a TCA registered with the FRC may conduct an audit of a UK-traded third country company[5] (**UKTTCC**) in accordance with:

- International Standards on Auditing (UK) (ISAs (UK));
- ISAs issued by the IAASB;
- national auditing standards the UK has determined to be equivalent; or
- dual reporting requirements, where an auditor applies home country standards for domestic purposes but confirms compliance with ISAs for UK listing purposes.

11. The FRC concluded in 2021-22 that CSAs were not equivalent to ISAs. No re-assessment has since been performed, nor is such work planned.

12. In the Consultation, the FRC proposed to amend the aforementioned policy to permit TCAs to conduct certain audits in accordance with CSAs. As explained below in this Feedback Statement, the amendment to current policy will be effected by revisions to the TCA Directions and related policy documents.

Inspection of audits conducted by TCAs

13. Certain responses to the Consultation displayed a misunderstanding as to the FRC's role in monitoring inspections of audits by TCAs of the accounts of UKTTCCs registered in China, and whether this may be affected by permitting the use of CSAs in respect of Stock Connect Audits.

14. Section 1242 of the Companies Act 2006 provides, among other things, that TCAs must participate in arrangements for independent monitoring of audits.

15. The Secretary of State has power[6] to grant approval to a third country as an equivalent third country. Where a jurisdiction is so approved, the TCA Directions operate such that TCAs from that jurisdiction benefit from reduced registration and oversight requirements.

4 As to which, see paragraph 15 below.
5 S.1241(2) of the Companies Act 2006.
6 S1240A of the Companies Act 2006 and The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2020 (SI 2020/108).

16. The granting of audit equivalence recognises the strength of the home country's audit regulatory framework and reduces duplication, allowing for the FRC's regulatory effort to be focused proportionately.

17. As explained at paragraph 3.5 of the Consultation, China has been granted approval as an equivalent third country by the Secretary of State and this equivalence decision relates to China's audit regulatory framework in relation to independent inspections and oversight - not to its auditing standards.

18. In light of the foregoing, the effect of Direction 2 and Direction 3 of the existing TCA Direction is that 1242(1)(a) and 1242(2)(a) of the Companies Act 2006 do not apply to an audit by a TCA of the accounts of a UKTTCC incorporated or formed under the law of China.

19. Accordingly, the FRC does not conduct monitoring inspections of Stock Connect Audits.

20. The Consultation did not propose any change to this approach and the position is unaffected by the Proposed Amendment.

The Consultation

21. The FRC published the Consultation on 16 February 2026 and invited responses by 27 March 2026. The Consultation sought views on the Proposed Amendment which would permit Stock Connect Audits by TCAs to be undertaken in accordance with CSAs. As well as inviting comments on any aspect of the Proposed Amendment (including proportionality, the effectiveness of the proposed safeguards, and the potential market impacts, the Consultation sought stakeholder views on the following questions:

    a) **Regulatory Approach**: Are the characteristics of Stock Connect sufficiently distinct from other main market listings to justify a tailored regulatory approach for this segment?

    b) **Identification**: Are investors readily able to identify Stock Connect listings on the LSE, including the specific Shanghai/Shenzhen segment of the International Order Book?

    c) **Auditing Standards risk**: If TCAs of Stock Connect-listed entities are permitted to use CSAs, can potential investors adequately assess the risks associated with financial statements submitted for UK-listing purposes?

    d) **Transparency**: Do investors have sufficient access to publicly available information on CSAs to make an informed assessment of the implications of their use?

22. The Consultation formed part of the FRC's assessment of whether the existing requirement to apply International Standards on Auditing (**ISA**) or equivalent standards under the TCA regime creates unnecessary friction in the specific context of Stock Connect. In particular, it considered whether such friction may discourage some Chinese-registered issuers from choosing the UK as a listing venue through the Stock Connect programme. The Consultation also examined whether any such barriers could be addressed on an interim basis, while maintaining appropriate safeguards for audit quality and investor protection. The proposals consulted on would provide for closer UK alignment with other European jurisdictions that

permit the use of CSAs for Stock Connect Audits and host listings of Chinese-registered entities through programmes similar to Stock Connect.

23. Stock Connect is a commercial initiative endorsed through HM Treasury's Economic and Financial Dialogue (**EFD**), and supported by a Financial Conduct Authority (**FCA**) – Chinese Securities Regulatory Commission (**CSRC**) Memorandum of Understanding. It provides a structured framework for cross-border investment and is distinct from other listing routes for overseas companies.

24. The Consultation, and the FRC's consideration of the Proposed Amendment, take place in the broader policy context of the Government's focus on harnessing the UK's global leadership in financial services, while maintaining high regulatory and assurance standards. The proposals on which we consulted do not, in our view, give rise to any material additional administrative or compliance burdens.

25. The FRC has considered and reflected on the consultation responses received. This feedback statement summarises the views received from stakeholders and sets out the FRC's responses to the issues raised. The FRC is grateful to all respondents for engaging with the consultation, and for the constructive suggestions offered on how the FRC's proposed approach could be strengthened.

26. A small number of responses provided broader audit-policy or governance comments on the FRC's practices and remit, rather than commenting specifically on the practical questions posed by the consultation around the operational context of Stock Connect. While these wider comments were considered, greater weight has been placed on comments that addressed the detailed technical scope and practical implications of the Proposed Amendment, reflecting the defined purpose of the Consultation.

Summary of feedback and FRC response

Stakeholder Engagement

27. The consultation closed on 27 March 2026. We received twelve responses in total, from stakeholders of the following types:

Category of Respondent	Number
Audit and Professional Services Firms	1
Corporations/ Investors/ Individuals	3
Financial Market Institutions/ Industry Associations	4
Professional Bodies/ Standard Setting Organisations	4
Total	**12**

28. A full list of respondents is provided in the Appendix. Copies of the responses are available on the FRC's website, save in respect of one respondent who requested that their response not be published. This feedback statement has had regard to comments received from all twelve respondents.
29. A summary of the main points made in response to each Consultation question, along with the FRC's response, is set out below.

Question 1 Regulatory Approach:

Are the characteristics of Stock Connect sufficiently distinct from other main market listings to justify a tailored regulatory approach for this segment?

Summary of feedback:

30. Respondents raised a range of issues regarding whether the characteristics of the Stock Connect segment justified a tailored regulatory approach. Of the twelve responses received, ten addressed this question directly.

Distinctive operational and structural features of Stock Connect

31. Several respondents pointed out features of Stock Connect that distinguish it from other main market listings.
32. Five respondents highlighted that Stock Connect operates as a clearly defined cross-border mechanism with its own operational characteristics, including fungibility arrangements, conversion processes, and shared regulatory oversight between UK and Chinese authorities.

33. Four respondents emphasised that the segment is ring-fenced and narrow in scope, making it possible to apply a specific and proportionate, tailored approach in respect of auditing standards.

Nature of the investor base

34. Several respondents commented on the profile of investors in the Stock Connect segment.

35. Four respondents noted that trading in the Stock Connect segment is predominantly undertaken by institutional and professional investors who are generally familiar with the risks associated with cross-border instruments and international audit frameworks.

Regulatory cooperation and market-access considerations

36. Three respondents referred to existing UK–China regulatory cooperation, including memoranda of understanding and established cross-listing processes, as factors supporting a differentiated approach.

37. Six respondents also noted that a temporary, narrowly framed amendment could help address a perceived friction point, potentially supporting the UK's competitiveness. The degree of emphasis varied across respondents.

Concerns regarding comparability, consistency and precedent

38. Other respondents raised concerns about whether Stock Connect's characteristics justified any departure from existing auditing standard requirements.

39. Four respondents argued that Stock Connect does not differ materially from other depositary-receipt structures and cautioned that any tailored approach could reduce regulatory consistency or create perceptions of a two-tier audit regime.

40. Three respondents observed that the Consultation did not provide empirical evidence that current UK audit requirements act as a barrier to listings or that Stock Connect issuers face unique challenges in this respect.

41. Three respondents felt that the proposal risked being seen as only a policy-driven exception to the exclusion of a principles-based regulatory adjustment, raising concerns about future precedent.

FRC Response:

42. We recognise the range of views expressed by stakeholders on whether the characteristics of the Stock Connect segment justify a tailored regulatory approach. A number of respondents considered Stock Connect to be sufficiently distinct to warrant specific treatment, while others expressed concerns about regulatory consistency, precedent, and the potential creation of a two-tier audit framework.

43. Having carefully considered all of the feedback, the FRC has confirmed its initial view that the Stock Connect segment is a specialist and narrowly-defined market, with features that differentiate it from the wider Main Market of the LSE. Stock Connect is also subject to specific

governance and oversight from financial regulators in both the UK and China. Stock Connect is accessible only to eligible Chinese issuers, and participation requires those issuers to meet conditions set jointly by UK and Chinese authorities. The segment is largely utilised by professional and institutional investors, although retail investors may trade in these instruments if they choose. This distinguishes Stock Connect from broader retail-facing markets and supports the case for a proportionate and time-limited regulatory approach.

44. As noted by several responses, it is also important to recognise the limited scale of the Proposed Amendment. It would apply only to issuers admitted to trading through Stock Connect, comprising the six issuers currently listed through that route, and any additional Stock Connect issuers listed after the Proposed Amendment takes effect. As such, the proposal is narrowly confined to a clearly defined market segment and does not alter auditing standards requirements for other listed entities. It does not introduce broader regulatory divergence across the market, nor does it create a material systemic risk of “contagion” to other listing routes. The FRC considers that this constrained scope materially limits the risk of wider regulatory spillover or of unintentionally setting a precedent. The FRC remains committed to maintaining high audit standards across the UK market, and the targeted nature of the proposal is intended to ensure that core regulatory principles continue to be upheld.

45. In addition, as identified by several responses, the proposal is designed to operate for a strictly time-limited period of two years. This would allow the FRC to assess whether the Proposed Amendment functions effectively in practice, supports market access, and maintains audit quality and investor protection. Towards the end of this period, the FRC intends to review the evidence and decide whether continuation is appropriate. The temporary nature of the approach would provide an additional safeguard against any unintended longer-term regulatory implications and would also provide time for government to consider whether it is appropriate to put in place a more enduring legislative solution.

46. For the aforementioned reasons, the FRC considers that a tailored and proportionate regulatory approach for Stock Connect is justified, while also recognising the concerns expressed by some respondents and ensuring these will be addressed through continued supervision of TCAs in accordance with the FRC’s prevailing policies and procedures.

Question 2 Identification:

Are investors readily able to identify Stock Connect listings on the LSE, including the specific Shanghai/Shenzhen segment of the International Order Book?

Summary of feedback:

47. Respondents’ views differed as to whether investors can readily identify Stock Connect listings. Of the responses, 10 addressed this question directly, although their conclusions varied significantly. Two respondents did not give a clear view.

Identifiability for professional/institutional investors

48. Six respondents stated that Stock Connect listings are identifiable through the LSE's systems and disclosures, including dedicated International Order Book (**IOB**) segment codes, Stock Connect labels, distinct trading system identifiers and clear statements in prospectuses and annual reports.

49. These respondents emphasised that institutional investors routinely use market data terminals and trading tools where these identifiers are visible, and therefore considered Stock Connect issuers to be readily identifiable in practice for this group.

Concerns about identifiability for non-specialist or retail investors

50. Four respondents expressed concerns that it may be difficult for non-specialist or retail investors to identify Stock Connect listing, even if technical markers exist.

51. These respondents observed that retail investors are unlikely to reference IOB segment codes, understand depository receipt classifications, or interpret the significance of Stock Connect labelling. They considered that the existence of identifiers does not guarantee that typical UK investors would notice or understand them.

Distinction between identification and investor understanding

52. Four respondents raised concerns emphasising that identifying the segment is not the same as understanding the regulatory implications of inclusion in the Stock Connect framework. They noted that many investors, particularly retail investors or institutions without specialist emerging market expertise, may not appreciate the cross-border supervisory arrangements or the relevance of potentially non-equivalent auditing standards.

53. As a result, the identifiability of Stock Connect securities appears to depend not only on the availability of technical information, but on the experience, knowledge and market sophistication of individual investors interpreting it.

FRC Response

54. We recognise the feedback from respondents on the question of whether Stock Connect listings are readily identifiable to investors. Views were mixed: while several respondents considered the existing market-segment labelling and trading-screen identifiers to be sufficiently clear for the intended investor base, others highlighted concerns about the potential for confusion among retail investors and the risk that disclosure alone may not guarantee that all market participants appreciate the distinction.

55. In forming our position, the FRC has considered that the Stock Connect segment is a specialist, ring-fenced market, designed primarily for professional and institutional investors, who engage routinely with the IOB and its segment classifications. The intention of the Proposed Amendment is to remove a specific barrier, which the FRC understands is considered by some Chinese-registered entities to unduly restrict listings on the LSE via Stock Connect. It is not aimed at altering the profile of the investors in the Stock Connect segment;

predominantly institutional and professional investors who are able to access various channels to identify Stock Connect listings.

56. While retail investors may choose to trade the instruments listed on Stock Connect, the regime is not designed or targeted at them, and the transparency requirements applicable on admission to listing help ensure that the relevant characteristics are clearly set out. Only eligible Chinese issuers can list through this mechanism, and the total number of such securities is extremely limited. These factors significantly reduce the risk of investor misunderstanding.

57. Stock Connect securities are listed on a specialist segment of the LSE's IOB[7], labelled the Shanghai/Shenzhen segment, which has its own defined eligibility criteria and is readily visible to market participants at the point of trading. Stock Connect transactions are also flagged on the security page under the 'market segment' heading: trades that are clearing are marked as 'IOBS', while uncleared trades are marked as 'IOBT', ensuring participants can distinguish between them. Accordingly, we consider that Stock Connect issuers are clearly listed on the LSE's website[8]. The FCA's existing prospectus requirements for entities seeking a listing, also provides for transparency to inform potential investors. Accordingly, the FRC considers that those investors most likely to trade in Stock Connect securities, and at whom the Proposed Amendment is targeted, are able to identify and distinguish Stock Connect listings on the LSE.

58. To ensure further clarity for investors, the FRC will work with the FCA and the LSE to encourage consistent and prominent disclosure of the Stock Connect designation in relevant documentation and trading interfaces. This will help ensure that the already contained risks are minimised, while maintaining the proportionate nature of the Proposed Amendment.

Question 3 Auditing Standards risk:

If TCAs of Stock Connect-listed entities are permitted to use CSAs, can potential investors adequately assess the risks associated with financial statements submitted for UK-listing purposes?

Summary of feedback:

59. Respondents expressed a wide spectrum of views regarding whether investors would be able to assess risks arising from the use of CSAs. Eleven submissions directly addressed the question, though they diverged significantly in their conclusions.

Views that investors can assess risks with appropriate disclosures

60. Five respondents considered that institutional investors, the primary participants in the Stock Connect segment, may be able to assess risks associated with the use of CSAs, provided that disclosures are clear, prominent and standardised

7 https://docs.londonstockexchange.com/sites/default/files/documents/international-order-book-introduction-sheet.pdf
8 https://www.londonstockexchange.com/raise-finance/equity/london-stock-connect

61. These respondents emphasised the importance of mandatory statements that CSAs are not equivalent to ISAs and noted that UK listing, disclosure and governance requirements would continue to apply, giving investors a reliable baseline from which to assess risks. They also pointed to the professional expertise of institutional investors as a factor that may mitigate the risk of misinterpretation.

Concerns that investors cannot adequately assess risks

62. Six respondents raised concerns that investors, including some institutional investors, may not be able to meaningfully assess the implications of audits undertaken in accordance with CSAs.

63. These respondents argued that the absence of an authoritative comparison between CSAs and ISAs leaves investors without the information necessary to understand differences in audit quality, procedures or assurance levels. Two respondents highlighted that meaningful risk assessment requires an explanation of what the differences are, not simply a statement that differences exist.

64. Three respondents stressed that CSAs are not widely recognised outside China, reducing comparability across issuers and potentially undermining investor confidence. They also noted that investors typically rely on assurance frameworks they understand and questioned whether asking investors to interpret an unfamiliar audit regime is realistic or fair.

Distinction between disclosure and understanding

65. Respondents raising concerns emphasised that disclosure, on its own, does not provide investors with the technical context necessary to assess whether audits conducted under CSAs deliver a comparable level of assurance. Several respondents noted that even sophisticated investors may find it difficult to interpret the practical implications of differences in areas such as auditor independence requirements, documentation practices and fraud-risk procedures. A consistent theme across these responses was that investors' ability to "adequately assess risks" depends heavily on access to a clear, reliable explanation of how CSAs differ from ISAs (UK), which respondents considered is currently lacking.

FRC Response

66. We have taken careful account of the range of views provided on whether investors can adequately assess the risks associated with financial statements audited under CSAs. Some stakeholders, particularly those familiar with international capital markets, felt that institutional investors would be able to understand the implications of the audit framework - especially where clear disclosures are provided. Others, however, were concerned that differences between CSAs and ISAs may not be well understood by all market participants.

67. The FRC has considered these concerns but also notes the specific and narrow context in which the Proposed Amendment would apply. Stock Connect securities are issued exclusively by large Chinese companies, already listed in China and supervised by the China Securities Regulatory Commission (**CSRC**). Trading in these securities is undertaken predominantly by

sophisticated institutional investors, who routinely assess cross-border audit frameworks, international accounting differences, and comparable global listing structures.

68. Whilst it is accepted that some respondents sought for the FRC to provide an authoritative assessment of CSAs, the FRC does not consider that it is necessary or appropriate to undertake that analysis, whether in the context of this Consultation or otherwise. The use of CSAs by TCAs is expected to be very limited, in light of the narrow application of the Stock Connect programme. Furthermore, it is considered that sufficient information is publicly available (see further paragraph 74 below under the heading "Availability of CSA information") to permit the typical investor base for Stock Connect securities to perform their own assessment between CSAs and other auditing standards. The FRC notes that the website of the International Federation of Accountants[9] (**IFAC**) includes an assessment of the status of adoption of ISAs by China. In light of these matters, the value to the wider audit or investor market of the FRC performing a further assessment of CSAs would therefore be limited.

69. As explained in paragraph 4.6 of the Consultation, the FRC also expects that the use of CSAs in respect of Stock Connect Audits would be considered, by the audited entity, to be a material matter, necessitating public disclosure to the market. In the FRC's view, such disclosure should set out the risks associated with the use of CSAs, making investors aware that CSAs have not been determined as equivalent to ISAs by the FRC. This approach should serve to reinforce transparency and support informed investor decision-making.

70. In light of this, the FRC considers that: if TCAs are able to conduct Stock Connect Audits in accordance with CSAs; those investors most likely to trade in Stock Connect securities, and at whom the Proposed Amendment is targeted, will be able to adequately assess the associated risks[10].

71. To address any residual risks, the FRC proposes to require TCAs conducting Stock Connect Audits in accordance with CSAs to make a clear, prominent disclosure in the relevant audit report stating that: (i) the audit has been conducted under CSAs; and (ii) that CSAs have not been determined equivalent to ISAs (UK). The FRC will seek to ensure that such disclosures are presented in a way that maximises clarity for users of financial statements. We will also continue to monitor the effectiveness of these safeguards over the two-year period and will reconsider the approach if risks are found to be unacceptable.

9 [Member Country | IFAC]

10 In other words, the risks associated with financial statements prepared for UK-listing purposes which have been audited in accordance with CSAs.

Question 4 Transparency:

Do investors have sufficient access to publicly available information on CSAs to make an informed assessment of the implications of their use?

Summary of feedback:

72. Respondents expressed a wide range of views regarding whether investors currently have access to sufficient information on CSAs. All responses addressed this question either directly or implicitly.

73. Eleven respondents commented on the availability and usefulness of publicly accessible information on CSAs. One respondent did not express a clear view on this question.

Availability of CSA information

74. A small number of respondents identified that information on CSAs is publicly available through sources such as the Chinese Institute of Certified Public Accountants and certain bilingual or annotated standards libraries. It was also noted that IFAC includes an assessment of the status of adoption of ISAs on its website[11].

75. These respondents indicated that disclosure in prospectuses and other listing documentation could assist investors in locating such materials but did not necessarily conclude that the existence of those resources alone ensures effective transparency for all market participants.

76. It is unclear whether other respondents had previously been aware of the sources, summarised in paragraph 74 above and set out in certain of the published responses to this feedback statement, for identifying the CSAs and translations thereof.

Concerns that transparency is insufficient in practice

77. Seven respondents considered that, although information technically exists in relation to the text of CSAs, it is not sufficiently accessible or understandable to support informed assessments.

78. These respondents highlighted challenges such as language barriers, limited interpretability of technical material, and the absence of an authoritative comparison explaining the practical implications of differences between CSAs and ISAs.

79. In this regard it was stated that transparency is meaningful only when information is interpretable. These respondents questioned whether investors, particularly non-specialists, would be able to draw conclusions about audit quality or reliability based on raw standard texts.

80. Respondents also noted that the FRC has not published the findings of its 2021–22 assessment of CSAs, limiting investors' ability to understand how CSAs diverge from ISAs.

11 Member Country | IFAC

Dependence on regulator-provided clarity

81. Respondents consistently stated that effective transparency depends on the FRC providing contextual information clarifying how CSAs compare to ISAs. Without this, they considered that investors lack the necessary tools to evaluate audit risks associated with the use of CSAs.

82. It was also suggested that the FRC should make clear that the Proposed Amendment will not permit the use of CSAs for any audits other than Stock Connect Audits (for example, UK statutory audits).

FRC Response

83. We note that several respondents expressed concerns about the accessibility and clarity of information on CSAs, including the availability of English-language materials and the absence of a detailed comparison with ISAs. Others felt that existing public information, combined with mandatory disclosures in prospectuses and annual reports, could provide an adequate level of transparency for the specialist audience engaging with Stock Connect.

84. While a small number of respondents noted concerns around the information provided alongside the Consultation, the FRC considers that it has provided sufficient information to allow consultees to consider this question. Other respondents were able to provide substantive responses based on the information provided.

85. The FRC agrees that transparency is central to maintaining confidence in the audit framework, particularly where non-equivalent standards are involved. While the FRC considers that users of the Stock Connect market are typically well-equipped to evaluate cross-jurisdictional audit regimes, we recognise the importance of supporting market understanding.

86. However, the FRC do not consider that it is necessary or appropriate to undertake and publish an authoritative assessment of CSAs, whether in the context of this Consultation or otherwise. The use of CSAs by TCAs is expected to be very limited, in light of the narrow application of Stock Connect. Furthermore, those investors most likely to trade in Stock Connect securities, and at whom the Proposed Amendment is targeted, are likely to be able to adequately assess the risks associated with the use of CSAs. In light of these matters the value to the wider audit or investor market of the FRC performing a further assessment of CSAs would therefore be limited. We reiterate the comments at paragraph 68 above in this regard.

87. The FRC proposes that the appropriate FRC webpage will be updated to reiterate the position set out in the Consultation, namely:

    a) CSAs were assessed in 2021-22 as not equivalent to ISAs;

    b) The FRC is not routinely informed whether, and to what extent, Chinese authorities monitor changes to ISAs and / or update CSAs to reflect changes to ISAs;

    c) Six ISAs have been amended since the FRC’s assessment of CSAs, and the FRC has not been informed whether CSAs have been updated;

    d) Accordingly, there has been potential for further divergence since 2022;

e) The FRC's 2021-22 assessment is therefore out-of-date;

f) The FRC has not performed any re-assessment of CSAs; and

g) Save in respect of Stock Connect Audits, TCAs are not permitted to conduct audits of UKTTCCs in accordance with CSAs.

88. Accordingly, the FRC does not consider that publication of the 2021-22 assessment of CSAs would therefore be necessary or helpful to understand the Proposed Amendment or respond to the Consultation.

89. It is important to emphasise that the scope of the proposal is extremely limited, applying to issuers within the Stock Connect segment of the LSE and for a two-year period only. At present this comprises six issuers and would also capture any issuers that become listed on Stock Connect during that period. The FRC will in due course review the impact of the temporary arrangement, including the sufficiency of investor information, as part of the post-implementation assessment before determining whether any extension or further reforms would be appropriate.

Other comments

Summary of feedback:

Potential creation of a two-tier audit environment

90. Three respondents raised concerns that permitting the use of CSAs could create a de facto two-tier audit environment within UK markets, with Stock Connect issuers subject to different audit expectations from domestic issuers. They warned that this could undermine the perceived consistency and credibility of UK financial reporting, even if the carve-out is limited in scope or duration.

91. Two respondents noted that maintaining investor confidence depends on the UK continuing to present a single, high-quality audit framework. They suggested that tolerance of non-equivalent standards, even in restricted circumstances, risks signalling a weakening of the UK's commitment to audit comparability and market integrity.

Requests for transparency on equivalence

92. Five respondents called for greater transparency around the conclusion that CSAs are not equivalent to ISAs, particularly through publication of the regulator's equivalence assessment and identification of specific areas of divergence. They emphasised that understanding these differences is critical for investors, auditors and other stakeholders.

93. Three respondents supported a refreshed equivalence review, noting that ISAs have evolved since the FRC's last assessment and that it is unclear whether CSAs have changed in parallel. They viewed an updated and publicly available analysis as essential to support confidence in the proposed framework.

Supervisory and enforcement challenges

94. Four respondents highlighted supervisory and enforcement challenges associated with reliance on CSAs, including limits on access to audit working papers, dependence on cooperation from Chinese regulators and uncertainty around enforcement mechanisms. They considered that these constraints weaken practical oversight and reduce transparency for UK stakeholders.

95. Three respondents expressed concern about the effectiveness of shareholder engagement and governance channels, noting uncertainty over how UK investors could raise concerns with Chinese auditors or expect participation in UK-style accountability processes.

Consultation process and evidence base

96. Three respondents commented on the consultation process itself, stating that the proposal would benefit from a stronger published evidence base, including clearer explanations of why the change is necessary and how identified risks will be mitigated in practice. They considered that this would support more informed stakeholder engagement.

97. Two respondents suggested that reliance on unpublished internal assessments or assumptions reduces confidence in the consultation and limits stakeholders' ability to test the robustness of the proposal.

Market competitiveness considerations

98. Three respondents acknowledged the benefits of enhancing the UK's international competitiveness and reducing friction for cross-border listings, particularly in relation to Stock Connect issuers. They viewed the proposal as a pragmatic response to global market realities, provided investor protection and transparency are maintained.

99. Two respondents cautioned that competitiveness gains should not come at the expense of audit quality or market confidence. They emphasised that the UK's attractiveness as a listing venue is closely linked to the strength and reputation of its regulatory and assurance frameworks.

FRC Response

100. Taken together, these comments highlight that support for the proposal is closely linked to confidence in transparency, supervisory effectiveness and consistency of the UK audit framework. As explained at paragraphs 13-20 above, the Proposed Amendment does not practically alter the FRC's supervisory approach in relation to TCAs. We are not proposing that the Proposed Amendment would lead to changes to the use of auditing standards in UK regulated markets, save in respect of specific instruments covered by the Stock Connect program. Where instruments are listed via Stock Connect, they are subject to specific transparency and supervisory requirements that are not within the FRC's remit and sit instead with financial regulators. The FRC works closely with those other bodies to address risks including those raised by some of the respondents to the Consultation.

101. In respect of requests for the publication of the FRC's assessment of CSA's conducted in 2021-22 and a stronger published evidence base, the FRC does not consider that the 2021-22 assessment of CSAs would be necessary or helpful to understand the Proposed Amendment or respond to the Consultation. Further explanation is provided at paragraph 86 above.

102. Moreover, the FRC does not intend to undertake a further assessment of CSAs at this time (as explained at paragraphs 68 and 86 above).

103. The FRC considers that it has provided sufficient information to allow consultees to consider the questions posed by the Consultation.

Impact Assessment

104. The FRC considers that the Proposed Amendment is not expected to result in any material or long-term incremental costs for the FRC, investors or UK businesses. The amendment is narrowly scoped and applies only to audits of Chinese-registered issuers listed through the Shanghai/Shenzhen Stock Connect segment, which currently comprises six issuers.

105. For affected issuers, the amendment is expected to reduce compliance costs and operational complexity by removing the need for auditors to undertake additional audit work or reporting to demonstrate compliance with ISAs for UK-listing purposes, where audits are otherwise conducted in accordance with CSAs. The amendment does not alter the FCA's UK listing, disclosure or governance requirements, nor does it affect audit requirements for any other UK-listed entities or their auditors.

106. The impact on investors is mitigated by the continued application of UK listing and disclosure obligations, mandatory registration of relevant TCAs with the FRC, ongoing supervisory arrangements, and the proposals that clear and prominent disclosures are made by TCAs that: CSAs have been used and are not recognised as equivalent to ISAs. As such, the FRC does not expect the amendment to give rise to material detriment to investor protection, particularly given the predominantly institutional investor base engaging in the Stock Connect market segment.

107. The impact on the FRC's registration activities is expected to be limited and manageable, reflecting the small number of affected engagements, the temporary duration of the amendment, and the existing framework for cooperation with overseas regulators.

108. The amendment is intended to operate on a time-limited basis of two years, after which it is intended to cease automatically unless further action is taken. During this period, the FRC will monitor the operation of the amendment and consider its impact on audit quality, investor protection and supervisory effectiveness. The FRC's review of the Proposed Amendment will take into account the progress of any legislative developments, recognising that such changes may not be completed within the two-year timeframe. The time-limited design is intended to minimise longer-term impacts and to ensure that any future arrangements are considered within an appropriate statutory framework.

Outcome and Next Steps

109. Having considered the responses to the consultation, together with the associated impact assessment, the FRC has decided to proceed with the Proposed Amendment, on the basis that appropriate disclosures[12] should be provided to investors so that they can assess risks around the use of CSAs in Stock Connect Audits.

110. The FRC's consideration of all of the feedback confirms its initial view that:

    a) attracting China-registered entities to list their securities in the UK (via the Stock Connect programme) would bring such entities within the scope of UK regulatory oversight and would increase investor protection for UK investors, who may otherwise invest in such securities through overseas markets; and

    b) by bringing such entities' auditors within the FRC's TCA regime, they will be subject to FRC registration and supervision requirements. Such measures will give the FRC visibility in respect of audit quality of such entities and may help to secure, and potentially improve, overall audit quality in respect of such entities.

111. In conjunction with implementing the Proposed Amendment, the FRC will:

    a) require TCAs conducting Stock Connect Audits both to disclose in their audit report the use of CSAs and to include a statement that CSAs have not been assessed by the FRC as equivalent to ISAs;

    b) inform the Financial Conduct Authority that the FRC considers the use of CSAs for Stock Connect Audits to be a material matter, and accordingly, would expect issuers to make appropriate public disclosures to the market regarding their use; and

    c) engage with the LSEG to explore whether additional clarity can be provided on their website (and other channels) to identify for investors which issuers are listed on Stock Connect, and the use of CSAs in Stock Connect Audits.

112. The outcome of the consultation will be implemented through revised TCA Directions, issued under the existing statutory framework for TCAs, and updated TCA Procedures. The revised TCA Directions will permit the use of CSAs for Stock Connect Audits, supporting UK listings through Stock Connect, and will be subject to the conditions and safeguards described in this feedback statement.

113. In reaching this decision, the FRC has taken into account the specialist nature of the Stock Connect segment, the limited number of issuers affected, the predominantly institutional investor base, and the importance of maintaining the UK's high standards of audit quality, transparency and investor protection. The FRC has also reflected carefully on the concerns raised by respondents regarding consistency, precedent, transparency and supervisory effectiveness, and has sought to address these through the scope and design of the Proposed Amendment.

12 Disclosures required by the UK listing rules are set by the FCA alone, and not in consultation with the FRC.

Summary of changes to the TCA Directions and TCA Procedures

114. Subject to finalisation of the drafting, the revised TCA Directions will be amended to permit the use of CSAs solely for Stock Connect Audits by TCAs, where the audit report is signed in the period 1 September 2026 to 1 September 2028 (inclusive).

115. To support the Proposed Amendment, the FRC's TCA Procedures (and related policy documents) will be updated to require TCAs to make an express disclosure if they undertake a Stock Connect Audit in accordance with CSAs. They will be required to set out for each Stock Connect audit that the audit has been conducted in accordance with CSAs, and that such standards are not recognised by the FRC as equivalent to ISAs. Some TCAs may choose to conduct Stock Connect Audits in accordance with ISAs, in which case this disclosure would not be required.

Monitoring of the Proposed Amendment

116. The FRC will monitor the operation of the revised policy and TCA Directions during the two-year period, with particular regard to audit quality outcomes, investor protection, the effectiveness of disclosures, and the functioning of supervisory and cooperation arrangements. The FRC will assess whether the Proposed Amendment has operated as intended and whether any unintended consequences have arisen.

117. The FRC will also take into account the progress of any relevant legislative developments, recognising that such changes may not be completed within the two-year timeframe. The temporary nature of the Proposed Amendment is intended to make sure that following its expiry, or that of any extended period of application, any longer-term arrangements are considered within an explicit statutory framework.

Appendix: Respondents to the consultation

Professional bodies/ Standard setting organisations

- Institute of Chartered Accountants of England and Wales (ICAEW)
- Institute of Chartered Accountants of Scotland (ICAS)
- The Centre for Public Interest Audit (CIPA)
- International Corporate Governance Network (ICGN)
- London Stock Exchange Group (LSEG)

Financial Market Institutions / Industry Associations

- UK Finance – AFME Joint Response (Response not published)
- SME Alliance
- Local Authority Pension Fund Forum (LAPFF)

Corporations / Investors / Individuals

- Elliot Mitchell
- Ming Yang Smart Energy Group Ltd (MYSE)
- Bank of New York (BNY)

Audit and Professional Services Firms

- BDO LLP

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