Deputy Director, Accounting
Hong Kong Society of Accountants
4th Floor, Tower Two, Lippo Centre
89 Queensway
Hong Kong

31 October 2002

Dear Sir

Consultation on a Proposed Framework for Differential Reporting

On behalf of the Association of Chartered Certified Accountants (ACCA) Hong Kong, we would like to provide our comments in respect of the specific issues set out in the consultation paper.

Need for differential reporting in Hong Kong

ACCA supports the idea of differential reporting, and in particular, where convergence with International Accounting Standards ("IAS") is progressing, there is likely to be a need for differential reporting as IAS are increasingly focused on the needs of capital markets.

It is also an international trend to adopt differential reporting for small entities in view of the relevant costs and benefits. In this regard, we share the view of the Society that to measure the costs and benefits of financial reporting requirements is difficult. We therefore refer to the surrogates proposed by the Society and we have the following comments on public accountability and size of the entity.

Public accountability

We agree that where an entity has public accountability, benefits of those users relying on the entity's financial reports could not be ignored and accordingly differential reporting exemptions should not apply in this case. However, it appears that the criteria set out in paragraph 24 of the consultation paper in determining whether an entity is publicly accountable only refer to those entities

ACCA Hong Kong 香港分會
Room 1901 19th Floor World Wide House 19 Des Voeux Road Central
中環 德輔道19號 環球大廈 19樓 1901室
tel 電話: +852 2524 4988 fax 傳真: +852 2868 4909 hongkong.accaglobal.com

The Association of Chartered Certified Accountants 英國特許公認會計師公會

being regulated in the special industries. We consider that it should not be a comprehensive and exhaustive list.

As the first condition for an entity should fulfil in order to be eligible for differential reporting exemptions is public accountability, we recommend guidelines be given on how an entity is defined as publicly accountable instead of proposing an exhaustive list for specific types of eligible company.

Size of entity

In view of the current economic condition in Hong Kong and the size of companies in general, we consider that the level of either total revenue or total assets being HK$50 million is too high to qualify an entity as a small entity. We also consider it more appropriate to apply a consistent limit with the existing exemption limits in the accounting guidelines such as the guidelines on cash flow statements.

Access to differential reporting

Under the current proposal, provided that an entity does not have public accountability, differential reporting exemptions can apply if an entity has separate owners and governing body or when it is qualified as a small entity. We consider that these criteria are reasonable and agree that access to differential reporting should only be limited to entities eligible under these proposed criteria.

Selective application of differential reporting exemptions

We consider that differential reporting exemptions should only relate to disclosures requirements and should not alter the accounting treatment for a transaction entered into by an eligible entity. Hence voluntary disclosures by an entity should not be prohibited as to promote transparency. However, in order to avoid manipulation, we suggest consistent application by eligible entities should be adopted.

Differential reporting exemptions

We have considered and assessed the exemptions in terms of the cost burdens to the reporting entity and its impact on the adequacy of information provided to give a true and fair view of the financial statements. As such we consider that certain exemptions should be reconsidered by the Society.

SSAPs 1 and 18

We consider that classification of current and non-current assets and liabilities under paragraph 56 should not be exempted. On the other hand, under section 4(2) of the Tenth Schedule of the Companies Ordinance requires that fixed assets, current assets and assets that are neither fixed nor current have to be separately identified in the balance sheet.

In addition, where paragraphs 35(b) and (c) of SSAP 18 is exempted, an entity has to comply with sections 13(1)(g) and (h) of the Tenth Schedule of the Companies Ordinance in respect of disclosures of investment and rental income. In order to avoid confusions for the reporting entity in respect of compliances to various legislations and standards, we consider that paragraphs 35(b) and (c) of SSAP 18 be excluded from the exemptions given that such a disclosure is not perceived to cause unreasonable cost burden to the reporting entity.

SSAPs 2 and 9

We consider that any material impact of subsequent events should be disclosed to properly reflect the financial position of an entity. As such, we suggest that disclosures required under paragraph 29 of SSAP 2 and paragraph 18 of SSAP 9 should be followed by eligible entities.

SSAP 31

We consider that disclosure of amount of impairment loss of an asset be required under paragraph 117 of SSAP 31 if such amount is significant and we consider that such a disclosure would not cause significant additional costs to the reporting entity.

SSAP15

We understand that currently companies with turnover less than HK$20 million are exempt from the preparation of cash flow statements under SSAP15. However, under the differential reporting framework as proposed in the consultation, companies with turnover over HK$20 million would also be exempt provided that the conditions on public accountability and separation of ownership and management are fulfilled. As cash flow statement is increasingly seen as an equally important component along with a balance sheet and profit and loss account, we do not consider full exemption to qualifying entities be appropriate.

RECEIVED
HKSA

2002 OCT 32 AM 10: 49

SSAP 20

ACCA supports the retention of related party disclosures for all entities given that the existence of related party transactions can be of great importance to users of accounts other than shareholders. It is also considered that the impact of related party transactions on accounts is likely to be more significant with smaller closely-held private companies than with large ones.

Separate or integrated approach

ACCA supports the adoption of an integrated approach where differential reporting exemptions are to be set out in the main body of each SSAP. We consider that such an approach enables standard setter to consider any proposed differential reporting exemptions at the same time when setting or revising accounting standards.

Should you have any questions, please feel free to contact myself or Sonia Khao at 2524 4988.

Yours faithfully

K C Law
President