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IN ANY COMMUNICATION PLEASE QUOTE OUR FILE NO.

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File No.:

Mr. Steve Ong  
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Hong Kong Institute of  
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Dear Mr. Ong,

**Invitation to Comment on IASB Exposure Draft of  
Conceptual Framework for Financial Reporting: The Reporting Entity**

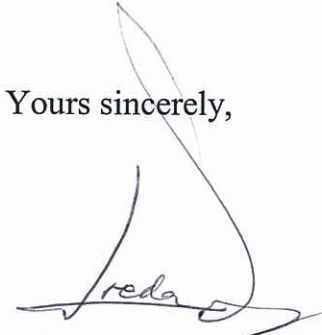
We refer to your letter dated 5 May 2010 inviting our comments on the IASB Exposure Draft of *Conceptual Framework for Financial Reporting: The Reporting Entity* (the "Exposure Draft").

The reporting entity concept is central to the preparation of financial statements. The description of a reporting entity in the Exposure Draft is, in our view, somewhat restrictive as it focuses on the information needs of the equity investors, lenders and other creditors but ignores those of other users in particular governments and their agencies. We note the IASB disagrees that all legal entities should qualify as reporting entities by themselves. From the tax perspective, however, it will cause us concern if the taxpayer, as a single legal entity, does not qualify as a reporting entity and hence not prepare its own financial statement. As the reporting entity concept does not rely on the legal structure of business entities, we are also worry that identifying reporting entity by reference to the circumscribed area of the economic activities conducted may involve subjective judgment and subject to manipulation.

As regards the financial statements, we are of the view that parent-only financial statements should be prepared by the controlling entity in addition to the consolidated financial statements as such parent-only financial statements would provide useful information for assessing the controlling entity's tax liabilities.

Notwithstanding the proposals in the Exposure Draft, legal entities in Hong Kong are governed by the Companies Ordinance (Cap. 32), in particular section 122 and 124 thereof, in preparing their financial statements.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Freda", with a large, sweeping flourish extending upwards and to the right.

(Ms FONG Wai-hang, Freda)  
for Commissioner of Inland Revenue