

From: Simon [mailto:simontsao05@yahoo.com.hk]  
Sent: Friday, April 09, 2010 8:22 AM  
To: P.T. Comment Letter  
Cc: Tsang John; ACCA  
Subject: Re : Conceptual Framework for Financial Reporting - The Reporting Entity

Dear Steve,

Further to my previous email, I wish to modify my comment in question 2 in that consolidation should start from the top line representing the aggregate of domestic interests, which may not be the ultimate holding company from a government and management perspective.

Thank you for your kind attention to the matter!

With best regards,  
Simon

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副本(CC) Tsang John <fso@fso.gov.hk>; ACCA <members@accaglobal.com>  
傳送日期： 2010/3/25 (四) 1:00:15 PM  
主題： Conceptual Framework for Financial Reporting - The Reporting Entity

Dear Steve,

With reference to your invitation to comment on the IASB exposure draft, I am now forwarding my comments as follows:

Do you agree that a reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided? (See paragraphs RE2 and BC4 – BC7.) If not, why?

The prime objective of financial reporting comes under the Companies Ordinance and therefore, the interests of local governing bodies have priority over other users. Moreover, with the occurrence of the financial turmoil, the flow of information is too quick to respond to. Any static form of measurement at one point in time can therefore be outdated and misleading. In this respect, to serve potential investors under 'fair-value' model seems inappropriate to override interests of other users of financial statements. The apparent threat of hedge funds to speculate also implies whether such flow of information is in the interests of the global economy. Consideration to local governing authorities should therefore be given priority in the preparation of information for regulatory purpose, secondly to employees in view of the widening poverty gap and rising unemployment rate. Creditors, management and existing shareholders are of lower priority as financial needs differ and the ambition to include all such information in one single set of financial report should be forbidden. Convergence of standards comes under the uniformity of legal concepts amongst different jurisdictions and until then, any attempt to codify accounting standards on a global basis can only cause disaster.

Do you agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements? Do you agree with the definition of control of an entity? (See paragraphs RE7, RE8 and BC18 – BC23.) If not, why?

HKAS 27 already sets out the criterion with reference to legislation and international standards. Definition of control appears to be appropriate. However, on the provision of information to domestic users, whether the intermediate line of the entity group representing domestic interests is required to present consolidation statements, notwithstanding the exemption available need to be considered.

Do you agree that a portion of an entity could qualify as a reporting entity of the economic activities of that portion can be distinguished from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity? (See paragraphs RE6 and BC10.) If not, why?

Any attempt to override legal form in the preparation of accounts should not be encouraged. The example being quoted in the draft for branch and/or division can only mean the sales of certain assets within the entity and the administrative efforts of central management in the selection and management of personnel etc. may have a significant bearing on the future performance of the unit in question. Owing to the lack of legal backing and other surrounding factors not being apparent, it is therefore not desirable to qualify a portion of a reporting entity to provide separate financial information.

The IASB and the FASB are working together to develop common standards on consolidation that would apply to all types of entities. Do you agree that completion of the reporting entity concept should not be delayed until those standards have been issued? (See paragraph BC27.) If not, why?

As I have previously reiterated, accounting principles come from legal concepts. Various jurisdictions may have different requirements and depending on the complication of legal structure, the development of unanimous standards to cater for all jurisdictions seems difficult to achieve. It is therefore my opinion not to wait for the completion of the common standards by IASB and FASB.

Thank you for your kind attention to the matter!

With best regards,  
TSAO Yea Tann Simon  
FCCA, CPA(Practising)