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In reply please quote this Ref.: CR HQ/1-20/15/7 Pt. 3 2013 OCT -3 PM 3:01

來函檔號 YOUR REF.:

電話 TEL.: 2867 2827

圖文傳真 FAX: 2869 4195

電郵 E-MAIL: cfsit@cr.gov.hk

27 September 2013

Mr. Simon Riley
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East,
Wanchai,
Hong Kong

Dear Sirs,

Limited Invitation to Comment on Consultation Draft of Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard (Revised)

We refer to your letter dated 21 August 2013. We have considered the details of the proposal in the captioned document and paragraph 19.1 of the Consultation Draft from the perspective of the new Companies Ordinance (Cap 622). Our response is as follows .

The Consultation Question

“Do you consider it is appropriate to include in the SME-FRF & SME-FRS an option to relieve a group from consolidating one or more subsidiary undertakings if the company's directors are of the opinion that their inclusion would involve expense or delay out of proportion to the value to members of the company? Why or why not? If not, what alternative approach would you propose and why?”

Response

We have no particular comments and defer to the views of the Institute on the proposal to include in the SME-FRF & SME-FRS an option to relieve a group from consolidating one or more subsidiary undertakings if the company's directors are of the opinion that their inclusion would involve expense or delay out of proportion to the value to members of the company.

Other observations

We have no objection to the safeguard that a company may not exclude a subsidiary from consolidation on the grounds of undue expense or delay out of proportion to the value to members of the company unless the members of the company have been informed in writing about, and do not object to, the exclusion. This safeguard is similar to that provided in section 379(3) of the new CO. For consistency, please consider if a procedure similar to the one in section 379(3) can be adopted for giving notice of, and objection to, exclusion of a subsidiary in paragraph 19.1.

Other textual comments on paragraph 19.1 are marked in the enclosure for your information.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Mrs Christine Sit', written in a cursive style.

(Mrs Christine Sit)
for Registrar of Companies

Encl.

Section 19 Consolidated and Company-Level Financial Statements

19.1 Except as permitted by paragraph 19.2 and 19.3, an entity which is a parent at the end of the financial year should present consolidated financial statements ~~in which it consolidates its investments in subsidiaries~~ in accordance with the SME-FRS. If consolidated financial statements are presented they should include all subsidiaries of the parent, except that one or more subsidiaries may be excluded from consolidation when:

(a) their exclusion measured on an aggregate basis [Comment : We note that “inclusion” and “taken together” instead of “exclusion” and “measured on an aggregate basis” are respectively used in section 381(3) of the new CO and section 405(2) of the UK Companies Act 2006. Please consider aligning the wording with section 381(3) for consistency.] is not material to the group as a whole; or

(b) their inclusion would involve expense and delay [Comment : Exclusion of the subsidiary should be based on disproportionate expense or delay, as provided in section 124(2)(b)(i) of Cap 32.] out of proportion to the value to members of the company.

A parent may not exclude a subsidiary from consolidation on the grounds of undue expense and delay [Comment : Exclusion of the subsidiary should be based on disproportionate expense or delay.] out of proportion to the value to members of the company unless the members of the company have been informed in writing about, and do not object to, this exclusion