

Simon Riley
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
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Wanchai, Hong Kong

24 October 2013

Dear Sir

Limited invitation to comment on consultation draft of small and medium-sized entity Financial Reporting Framework and Financial Reporting Standard (Revised)

On behalf of ACCA (Association of Chartered Certified Accountants) Hong Kong, we would like to submit our comments on the above consultation draft.

ACCA Hong Kong appreciates the rationale of the new Companies Ordinance to allow a leeway for companies to exclude a subsidiary from consolidation. In particular for SMEs, we share the view that an escape clause for a small group to exclude one or more subsidiaries which is or are immaterial to the group will provide SMEs a relief of their cost burden. As such, we agree to align the SME Financial Reporting Standards to the new Companies Ordinance so as to provide more certainties to the SMEs in preparing their financial statements. We agree to paragraph 19.1(a) which is consistent with the provisions of section 381(3) of the new Companies Ordinance.

However, as suggested in the Institute's invitation to comment, the relief given under paragraph 19.1(b) may give an opportunity to a parent company to take advantage to exclude material information such that the consolidated financial

statements would not give a complete picture of the group as a whole. We understand that the Institute is fully aware of such concern and hence proposes a safeguard which requires the members of the company to be informed in writing and only if the members do not object to the exclusion, a subsidiary can be excluded from consolidation on the grounds of undue expense and delay out of proportion to the value to members of the company. This makes sure that the exclusion is not invoked against the members' wishes.

While we note that an exclusion of a subsidiary from the consolidated financial statements is not in line with the International Financial Reporting Standards on consolidation, we acknowledge that there are genuine business cases in particular for SMEs where the inclusion of a subsidiary would involve expenses and delay out of proportion to the value to the members of the company. However, we consider that the safeguard as mentioned above may not be sufficient to ensure the interests of the users or other stakeholders of the financial statements other than that of the members being protected.

Should this clause be included, we are of the view that more safeguard measures are required to be incorporated. We also suggest that it needs to clearly state in the SME FRS that the condition can only be applied "in extremely rare case" given that a subsidiary should be controlled by the parent company. For the disclosure requirements, apart from those required under paragraph 19.16, namely the name, the principal place of operation, place of incorporation and an indication of the nature of business, a more detailed explanation for the exclusion should also be included. Relevant guidelines should also be provided in order to facilitate financial statements preparers and assurance providers for ensuring the resulting consolidated financial statements can provide a meaningful and unbiased picture of the group for their users where there is an exclusion of one or more subsidiaries in compliance with paragraph 19.1(b).

Should there be any questions, please feel free to contact us at 2973 1113.

Yours faithfully

A handwritten signature in black ink, appearing to read "Roy Tsang", with a stylized flourish at the end.

Roy Tsang
Chairman