



公司註冊處
COMPANIES REGISTRY

RECEIVED
HKICPA

香港金鐘道六十六號
金鐘道政府合署十五樓

QUEENSWAY GOVERNMENT OFFICES
15TH FLOOR, 66 QUEENSWAY,
HONG KONG.

www.cr.gov.hk

覆函請註明本處檔號：

In reply please quote this Ref.: (11) in CR/HQ/1/20/15/7 (III)

2009 FEB 17 AM 11:00

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

13 February 2009

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

Dear Steve,

**Invitation to Comment on
IASB Exposure Draft ED 10 Consolidated Financial Statements**

I refer to your letter dated 21 January 2009 in respect of the captioned matter. We have considered the proposals in the Exposure Draft ("ED") in the light of the current provisions of the Companies Ordinance ("the CO") and the recommendations made in the context of the CO rewrite with regard to the Accounting and Auditing provisions. The comments which follow should not therefore be taken as reflecting the position of the Administration as a whole.

Concept of "control"

Definition of "subsidiary" under the CO

Under the Companies Bill ("CB"), a new provision will provide the general requirement that —

- if, at the end of a financial year, a company is a holding company, the directors of the holding company shall prepare for that financial year consolidated financial statements of the company and its subsidiaries which give a true and fair view of the financial position and financial performance of the company and its subsidiaries as a whole

...../2



- where a holding company prepares consolidated financial statements, all the subsidiaries of the company must be included in the consolidation

The general requirement will be subject to —

- a “materiality override” which excludes a subsidiary from consolidation if its inclusion is not material for the purpose of giving a true and fair view (but two or more undertakings may be excluded only if they are not material taken together) of the financial position and financial performance of the holding company and its subsidiaries as a whole;
- the exemption based on HKSA 27 paragraph 10(a) and
- the true and fair view override based on section 126(4) of the CO.

The basis for preparing consolidated financial statements under the CB is premised on the parent and subsidiary relationship of companies which are determined according to sections 2(4) to (7), section 2B and the 23rd Schedule of the CO (see Annex hereto). “Control” by one entity over the other is evident in the determination of that relationship, viz —

- control of the majority of the voting rights over another entity
- control of the composition of the board of directors of another entity
- dominant influence over another entity by virtue of contract or the memorandum or articles or equivalent constitution of another entity.

These principles which determine if a company is a “subsidiary” of a holding company are not proposed to be changed under the CB.

Definition of “control” under the ED

Compared to the CO, the proposed definition of “control” and the guidance to assessing control in the ED have the effect of catching companies which do not fall with the definition of “subsidiaries” under the CO, and hence the proposed new provision of the CB.

.../3

In other words, a holding company would be required under the ED to prepare consolidated financial statements of entities that do not fall within the definition of “subsidiary” in the CO. This would create a discrepancy between the legal requirement and the accounting standards which is something that the Joint Government / HKICPA Working Group to Review the Accounting and Auditing Provisions of the CO wishes to avoid.

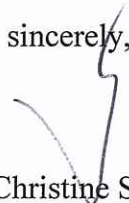
In the premises, we would be grateful if you would keep us informed of your Consultation Conclusions so that we can consider how to reflect them, where appropriate, in the draft CB to be issued for public consultation in the fourth quarter of 2009.

Enhanced disclosure and a cohesive set of requirements

With regard to the proposals to enhance disclosure and develop a cohesive set of requirements for all investments in entities, we support in principle any proposal that would strengthen, improve and align the financial reporting requirements such that financial statements will give investors and other users information that is useful for their decision-making. However, we are not in a position to comment on the individual proposals as they are very technical in nature and are made from an accounting point of view.

Thank you for your kind attention.

Yours sincerely,



(Mrs Christine Sit)
for Registrar of Companies