



The British
Chamber of Commerce
in Hong Kong

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17 October 2008

Mr. Steve Ong
The HKICPA,
37F Wu Chung house,
213 Queen's Road East,
Wanchai, Hong Kong

Dear Mr Ong

**HKICPA CONSULTATION PAPER ON FINANCIAL REPORTING BY
PRIVATE COMPANIES**

I am pleased to send the response of the British Chamber of Commerce in Hong Kong to the HKICPA consultation on financial reporting by private companies. We would apologise for the late submission but Paul Winckelman is aware of the delay and the reasons for that delay. If we can be of further assistance then please let us know.

Yours sincerely

Brigadier Christopher Hammerbeck CB.CBE.
Executive Director

Cc: James Riley – Chairman
Deborah Annells – Chairperson Financial Services Interest Group

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HKICPA CONSULTATION PAPER ON FINANCIAL REPORTING BY PRIVATE COMPANIES

Question 1

Do you agree that relief from applying full HKFRSs should be permitted for private companies? Please explain your reasons.

Yes. Private companies of any size should be relieved from applying full HKFRS's. In Europe, only listed companies and their subsidiaries and associates apply full FRS's. Full FRS's are complex and difficult to apply and require regular valuations and discounting of assets. The effort is often out of proportion to the benefit of the reader.

Question 2

Do you agree that the SME-FRF&FRS is an appropriate reporting option for small private companies and groups? Please explain your reasons.

Yes. SME FRF + FRS are at present more appropriate for all private companies, as above. We also understand that a draft of an internationally accepted standard for the format for the accounts /financial statements for private companies will likely be circulated shortly; which the HKICPA may consider amending, as appropriate and adopting for Hong Kong private companies. We would support implementing such internationally acceptable formats for financial reporting, in Hong Kong, for private companies.

Question 3

Do you agree that large private companies should be provided with an option to choose a simpler reporting framework than HKFRSs? Please explain the reasons for your view.

All private companies should be able to adopt a simpler reporting framework than HKFRSs- and we suggest the internationally acceptable format mentioned at 2 above can be adapted for use in Hong Kong in due course. An audit will be sufficient based on the simpler accounting framework, for companies or groups exceeding the SME threshold.

Question 4

Do you agree with the view of Council stated in paragraph 34 ? If not, why not?

We do not agree with Council's view as stated in Para 34, for all the reasons set out above. There is no need to engage in a separate exercise to create a

financial reporting framework for private companies if an internationally acceptably standard will shortly become available and which can form the basis for the framework to be adopted in Hong Kong.

Question 5

Do you agree that the institute should adopt or develop a large private company financial reporting framework? Do you have a preliminary view as to which of the above options is appropriate? Please explain your views.

No we don't agree that a different FRS framework should be developed for large "private" companies, by the HKICPA ; it will be preferable to adapt the international standard when it is available.

Question 6

Please identify whether you use financial statements as a preparer, auditor and/or user and the effect on you in all these cases of the proposed introduction of a large private company framework.

Members of the British Chamber include the Big 4 accounting firms and many medium sized and smaller accounting firms, as well as many listed, and large, medium and small private companies. This response has been drafted by the Financial Services Group from within the Chamber which encompasses many corporate services providers, who set up and run many Hong Kong and offshore companies. They therefore have direct experience of running hundreds of mainly private companies and groups, in Hong Kong and elsewhere so are in an informed position to make a comparison with other jurisdictions.

The impact of the new FRS's on large private companies has been unwelcome and an easier framework would be appreciated. In many cases our members have suffered "over auditing" as a result of the new FRS's and have been required to make adjustments and valuations in their accounts which they do not agree with but with which they have no choice.

Supplementary comments

Our members would also specifically like to comment that audits should not be required of SMES in HK in line with the current practice in most developed jurisdictions i.e. UK, US etc where audits are not required, for the majority of privately owned companies.

There is already a significant shortage of qualified accounting personnel in HK; the low value work such as auditing SMEs and many dormant HK companies adds unnecessary additional pressures to already overstretched firms. In addition we believe all SME thresholds should be significantly increased, as the

definition/thresholds defining an SME is currently very low, in the case of Hong Kong.

For "large" private Hong Kong companies, i.e. those exceeding the higher thresholds, an audit may be required. The Hong Kong Companies Ordinance is currently being rewritten and would allow the auditing provisions to be amended as part of that. All Hong Kong companies would need to maintain proper accounting records as at present.

It is appreciated that a consultation on the audit requirement was considered last year and that it was decided (by the HKICPA) to recommend to the Hong Kong government that the audit requirements for all Hong Kong companies be retained. Our member's were surprised by that recommendation and suggest that it is reviewed again with a wider consultation.

When audit requirements for SMEs in the UK were lifted the auditing profession adapted to providing advisory/ higher level work, and did not go out of business as had been commonly feared.