香港中華總商會
The Chinese General Chamber of Commerce
於香港註冊成立的擔保有限公司
Incorporated in Hong Kong and limited by guarantee

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(By mail & fax 2865-6776)

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

2008 OCT 10 AM 11:26

Dear Mr. Ong,

Re: "Exposure Draft of Proposed Amendments to Small and Medium-sized Entity Financial Reporting Framework (SME-FRF) and Proposed Sections of Small and Medium-sized Entity Financial Reporting Standard (SME-FRS)" and "Consultation Paper on Financial Reporting by Private Companies"

With regard to your letters dated 12th and 16th June 2008 referring to the above consultations, the Chinese General Chamber of Commerce (CGCC) has set up a task force to discuss the papers. Relevant comments are summarized as follows:

A. Exposure Draft of Proposed Amendments to SME-FRF and Proposed Sections of SME-FRS

Q1 Do you agree that the SME-FRF and SME-FRS should be amended to cover groups? If not, why not?

CGCC agrees to the amendments for covering groups, since it can enlarge the number of entity for using SME-FRF and SME-FRS. However, we suggest that qualifying criteria should be clearly delineated to prevent those regulated "large groups" from using the amended SME-FRF and SME-FRS.

Q2 Do you agree that the size criteria set out in paragraph 24 of the SME-FRF appropriately identify a "small group" in Hong Kong? If not, why not?

In Hong Kong, quite a number of small-scale companies may achieve annual revenue of more than HK$50 million and contain assets of over HK$50 million due to the fluctuation of asset prices. In this connection, CGCC suggests that the size criteria set out in the SME-FRF for identifying a "small group" should be adjusted to "Aggregate total annual revenue of HK$100 million" and "Aggregate total assets of HK$100 million at the balance sheet date", while the criterion of "50 employees" can be retained.

Q3 Do you agree that at the company level, investments in associates and interests in jointly controlled entities should be accounted for using the cost method? If not, who not? Do you agree that when an investor / a venturer presents consolidated financial statements, investments in associates and interests in jointly controlled entities should be accounted for using the equity method? If not, why not?

CGCC believes that investments in associates and interests in jointly controlled entities should be accounted for using the cost method mainly due to 3 reasons:

(1) Unlike those listed companies or public interest companies, most of the SMEs are not necessary to prepare comprehensive reports to shareholders. Therefore, it is appropriate to follow the existing practice by adopting the cost method;

(2) Using equity method is costly and causing financial burden on the SMEs; and

(3) Fair values may not easily be identifiable and measured reliably due to market volatility.

Q4 Should a complete set of financial statements prepared under the SME-FRS be required to include a cash flow statement? If not, why not?

CGCC agrees that including a cash flow statement will help enhance the transparency of SMEs' financial situations. Nevertheless, such kind of information may not be necessary for SMEs' financial reporting. We therefore advise that including a cash flow statement should be an option but not mandatory in preparing financial statements under the SME-FRS.

Q5 If a cash flow statement is required, do you agree that either the direct method or indirect method can be used for reporting cash flows from operating activities, as set out in paragraph 22.7 of the SME-FRS? If not, who not?

As the calculation results would be identical, CGCC agrees that either the direct method or indirect method can be used for reporting cash flows from operating activities, subject to the availability of information.

Q6 Are there any disclosure requirements included in sections 18 to 22 of the SME-FRS that you consider are too onerous for SMEs and therefore should be excluded? If so, what are they and why?

In general, the disclosure requirements included in section 18 to 22 (i.e. Business Combinations and Goodwill; Consolidated Financial Statements; Investments in Associates; Interests in Joint Ventures and Cash Flow Statements) of the SME-FRS are unnecessary for financial reporting and may cause financial burden on SMEs. Thus CGCC agrees that the requirements should be excluded.

B. <u>Consultation Paper on Financial Reporting by Private Companies</u>

Q1 Do you agree that relief from applying full HKFRSs should be permitted for private companies? Please explain your reasons.

CGCC agrees to the relief since small private companies may not be necessary to disclose as much information as those of large companies.

Q2 Do you agree that the SME-FRF&FRS is an appropriate reporting option for small private companies and groups? Please explain your reasons.

The SME-FRF&FRS is an appropriate option, which could help SMEs to save time and money for preparing financial reports.

Q3 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.

CGCC agrees to provide an option for choosing a simpler reporting framework. We believe that the users will take the initiative to ask large private companies for adopting a more detailed framework if necessary.

Q4 Do you agree with the view of Council that (a) the SME-FRF&FRS does not meet the reporting needs of the users of the financial statements of large private companies; and (b) the SME-FRF&FRS should not be expanded to meet those needs? If not, why not?

To avoid complicated and excessive reporting burden on small private companies, CGCC agrees that the SME-FRF&FRS does not meet the reporting needs of the users of the financial statements of large private companies and should not be expanded to meet those needs. In fact, we believe that some of the "large private companies" should be benefit from the relaxation of size criteria for identifying SMEs as stated in Part A Q2.

Q5 Do you agree that the Institute should adopt or develop a large private company financial reporting framework? There are 3 options mentioned in the Consultation Paper, which include: (a) HKFRSs with reduced disclosures; (b) IFRS for SMEs; and (c) IRFS for SMEs with additional simplifications such as simplifying the proposed requirements for recognition of deferred tax. Do you have a preliminary view as to which of the above options is appropriate? Please explain your views.

To avoid complication and confusion, CGCC does not agree to adopt or develop a large private company financial reporting framework. In fact, the Institute should consider relaxing the size criteria for identifying SMEs as we mentioned in Part A Q2, so that IFRS for SMEs can also be adopted by those "large private companies" that meet the newly adjusted criteria.

Q6 **Please identify whether you use financial statements as a preparer, auditor and/or user and the effect on you in all of these cases of the proposed introduction of a large private company framework.**

Not applicable.

Thank you for your kind attention.

Yours sincerely,

Zoe Pang
Deputy Chief Secretary