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PRIVATE & CONFIDENTIAL

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**BY FAX (2865 6603)
AND BY POST**

Your Ref.: C/FRSC
Our Ref.: LD/CC/077-08

Mr. Steve Ong
Deputy 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,

Re: HKICPA Consultation Paper on Financial Reporting by Private Companies

I refer to the HKICPA's consultation paper above which was addressed to our Paul Chow.

We believe that for listed companies it is preferable that there is one single set of accounting standards and currently, either International Financial Reporting Standards ("IFRS") or Hong Kong Financial Reporting Standards ("HKFRS"), which are based on IFRSs, are acceptable. From a practical perspective we would expect that subsidiaries or private companies of a listed issuer to follow the accounting standards adopted by the listed parent as this would make compliance with the listed issuers' regular reporting requirements and the preparation of group financial statements easier.

At this time we find it difficult to provide substantive comments on the consultation paper since it does not detail the proposed new framework for "large private companies" and in particular, the criteria that will be used to determine what would constitute a "large private company" and the alternative accounting treatments and disclosures available to it. We suggest that if the Institute decides to proceed to developing such a framework it would be useful if it prepares a comprehensive table of the differences between the full HKFRSs, the Small and Medium-sized Entity Financial Reporting Framework and the proposed Large Private Company Framework so that the possible costs and benefits can be determined.

A key issue is that in Hong Kong the financial statements of "private companies" are not made available to the general public and therefore the users of the financial statements are effectively restricted to the shareholders. The Inland Revenue Department nevertheless indirectly makes some use of the financial statements prepared pursuant to Companies Ordinance by requesting these to be submitted together with the company's annual tax return.

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It appears therefore that it should be the shareholders of the private company who should decide what information should be presented to them and the appropriate accounting framework under which the financial statements are prepared.

The consultation paper recognises that private companies will be at different stages of development and size and that the current SME-FRF-FRS is perhaps too simple and may be expanded. We believe that this observation that “one size does not fit all” is true but whatever framework is developed it should allow departure from any specific prescribed standard where special circumstances warrant it – a “true and fair override” feature.

The alternative approaches available for large private companies under a new framework would appear to be either:

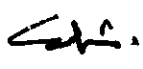
- (a) to adopt the current SME-FRF-FRS but “deviate up” by including some non historical cost recognition and measurement of assets and liabilities features; or
- (b) to adopt the current full HKFRSs and “deviate down” to adopt less disclosures and include less fair value recognition and measurement of assets and liabilities features.

We believe that the former approach would appear to be more practical as it would be an incremental approach to moving to full HKFRS by small private companies as they grow into larger enterprises.

As the IASB is currently working on a SME framework and the Institute has agreed to converge its standards with those developed by the IASB, it may be prudent to wait and see what is produced by the IASB before the Institute decides to embark on a similar exercise.

We hope that the above comments are useful.

Yours sincerely,
For and on behalf of
The Stock Exchange of Hong Kong Limited


Colin Chau
Senior Vice President
Listing Division

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c.c. Mr. Richard Williams – Head of Listing