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ACCA

BY:.....

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30 September 2008

Dear Mr Ong

HKICPA Exposure Draft of Proposed Amendments to Small and Medium-sized Entity Financial Reporting Framework and Standards (SME-FRF & SME-FRS) to cover Group Accounts and Cash Flow Statements

Thank you for your letter dated 12 June 2008 addressed to Ms May Law regarding the above subject matter.

On behalf of ACCA (the Association of Chartered Certified Accountants) Hong Kong, we would like to provide our views on the questions raised in your Exposure Draft.

Question 1 Do you agree that the SME-FRF and SME-FRS should be amended to cover groups? If not, why not?

ACCA Hong Kong agrees to the inclusion of group accounts in the SME-FRF and SME-FRS in principle. However, we note that the Institute is currently proposing a separate set of financial reporting framework for large private companies, and we are of a concern that the SME-FRF and SME-FRS will subsequently be adopted by micro-sized companies. Although ACCA Hong Kong does not agree to this proposed three-tiered financial reporting framework (our separate submission refers), we are of the view that group accounts could be of an option included in the SME-FRF and SME-FRS for micro-sized companies instead of a mandatory requirement should there be a three-tiered financial reporting framework. We consider that the conditions for exemption of consolidated financial statements set out in paragraph 19.2 of the Exposure Draft too burdensome for micro-sized entities, and the preparation of consolidated financial statements should be an option for these micro-sized entities.

Question 2 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?

We note that Institute's intention to adopt the size criteria as those set out in the Companies Ordinance Rewrite consultation paper namely

- Aggregate total annual revenue of not more than HK\$50 million net for that year;
- Aggregate total assets of not more than HK\$50 million net at the balance sheet date; and
- No more than 50 employees.

We note that the amendments in paragraph 24 of the SME-FRF are not consistent with the above in the way that the word "net" is omitted. We consider that the wordings on both the Companies Ordinance and the SME-FRF should be consistent in order to avoid any confusion.

In respect of the number of employees, given that the mobility of human capital is very high nowadays, we recommend that the wordings should be clear in stating there should be no more than 50 employees irrespective of their physical location.

Question 3 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, why not? Do you agree that when an investor / a venturer presents consolidated financial statements, investment in associates and interests in jointly controlled entities should be accounted for using the equity method? If not, why not?

We agree to both proposals.

Question 4 Should a complete set of financial statements prepared under the SME-FRS be required to include a cash flow statement? If not, why not?

ACCA Hong Kong considers that the cash flow statement is increasingly seen as an equally important component along with a balance sheet and profit and loss account. We therefore agree that a complete set of financial statements prepared under the SME-FRS be required to include a cash flow statement.

Question 5 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, why not?

We agree that both the methods should be allowed.

Question 6 Are there any disclosure requirements included in section 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?

We note that the requirement for disclosing the fair value of equity instruments and the basis for determining that fair value under paragraph 18.24(e)(ii) is contradictory to the fundamental principle of adopting historical cost under the SME-FRS. We have a concern that this requirement could impose undue cost burden on SMEs, in particular when and if the SME-FRS is to be adopted only by those micro-sized entities.

ACCA Hong Kong is of the view that Hong Kong should wait for the final version of the IFRS for private entities from the International Accounting Standards Board before making any final decisions on any amendments to the existing financial reporting framework.

If it is resolved that the existing SME-FRF and FRS be expanded to cater the needs of large private companies and as suggested in our separate submission on the proposed financial reporting framework for private companies, exemptions are introduced for micro-sized entities for certain requirements, a size criteria would then be required for any exemptions available under the expanded SME-FRF and FRS.

Should you wish to clarify any of the above issues, please do not hesitate to contact us at 2524 4988.

Yours sincerely



Kelly Chan
President