



**CCIF**

**CCIF CPA LIMITED**  
陳葉馮會計師事務所有限公司

20/F Sunning Plaza  
10 Hysan Avenue  
Causeway Bay Hong Kong  
香港 銅鑼灣 希慎道10號  
新寧大廈20樓

General 電話 +852 2894 6888  
Facsimile 傳真 +852 2895 3752  
E-mail 電郵 info@ccifcpa.com.hk  
www.ccifcpa.com.hk

Our Ref: PF/2496/08

30 September 2008

Mr Steve Ong  
Deputy Director  
Standard Setting Department  
Hong Kong Institute of Certified Public Accountants  
37<sup>th</sup> Floor, Wu Chung House  
213 Queen's Road East  
Wanchai  
Hong Kong

Dear Mr. Ong

**Re: Comments on (i) Consultation Paper on Financial Reporting by Private Companies and (ii) Exposure Draft of Proposed Amendments to SME-FRF & SME-FRS**

After reviewing the above Consultation Paper and the Exposure Draft, our comments are set out in Appendix I and Appendix II respectively for your consideration.

Thank you very much for your kind attention.

Yours faithfully  
For and on behalf of  
CCIF CPA Limited

Pammy Fung  
Director

Encl

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BY: .....

**Responses on 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, Some reporting relief (e.g. extension of SME-FRF & SME-FRS to cover groups and expansion of the current size tests) should be made available to these private companies as the compliance costs are disproportionately high and certain financial information may be irrelevant to the owners who are involved in the management of the company.

**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, the SME-FRF&FRS has been effective since 1 January 2005 in Hong Kong and its appropriateness can be proved by having satisfied the needs of the preparers and users of such financial statements for the past few years. Further, if the scope of SME-FRF & SME-FRS is extended as suggested in question 1, the extended SME-FRF & SME-FRS is considered as appropriate for private companies and groups in Hong Kong.

**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.*

Yes, as mentioned in question 1, some reporting relief should be made available to large private companies to allow them to use a simpler reporting framework.

### **Question 4**

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

No, it depends on whether the large private companies are entities of significant public interest. If the private company is not significant to the public, it seems inappropriate that we should not give an option to such a company to adopt the SME-FRF&FRS.

### **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, if the large private companies are significant to the public, it is better to prepare their financial statements under HKFRS. If they are not entities of significant public interest, the SME-FRF&FRS can be an option available to them.

### **Question 6**

*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.*

We are auditors of financial statements. The proposed introduction of a large private company framework (i.e. the so-called "3-tier" system) will increase the complexity of the financial reporting framework and both preparers and users of the financial statements will get confused easily. It will also have significant impact on our staffing arrangement and further resources are required to spend on staff training and development. A "2-tier" system (i.e. full HKFRSs and SME-FRF & SME-FRS) is simpler.

**Responses on Exposure Draft of Proposed Amendments to SME-FRF and SME-FRS**

**Question 1**

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

Yes.

**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?*

No. If the SME-FRF and SME-FRS is amended to cover groups as suggested in question 1, the size criteria set out in paragraph 24 of the SME-FRF may also need to be expanded.

**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, investments in associates and interests in jointly controlled entities should be accounted for using the equity method? If not, why not?*

Yes. At the Company level, investment in associates and interests in jointly controlled entities should be accounted for using the cost method.

No, the Company should have an **option** (in case the above accounting treatment is incorporated in the SME-FRS) to select the accounting treatment for investments as set out in the original section 6 of SME-FRS.

### **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?*

No, it could be an option only. Past cash flows are in general not quite relevant to the needs of users of the financial statements prepared under the SME-FRS. The inclusion of a cash flow statement will only increase the time and cost of preparation of the financial statements.

### **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?*

Yes, if required.

### **Question 6**

*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?*

No, however, an option to accounting under original section 6 of SME-FRS should be available for the company which consolidated financial statements are in general not quite relevant to the needs of the users of financial statements and the preparation of consolidated financial statements will only increase the time and cost of preparation in an unjustifiable manner.