

NEXIA CHARLES MAR FAN & CO.

馬炎璋會計師行

Certified Public Accountants



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

Via Fax: 2865 6776

Dear Steve

**RE: CONSULTATION PAPER ON FINANCIAL REPORTING BY PRIVATE COMPANIES AND EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO SME-FRS**

I enclose herewith my response to each of the questions raised in the above 2 papers.

I would also set out below my comments on certain issues for your consideration:

2-Tier Financial Reporting Framework

I agree with HKICPA that there is a "gap" under the existing HKFRSs and SME-FRS for larger private companies. The application of HKFRSs has to a certain degree imposed unnecessary reporting burden on these companies without corresponding real benefits derived therefrom. I welcome the initiative taken by HKICPA to address this issue.

To address the "gap" mentioned above, I am in favour of a 2-Tier Financial Reporting Framework. This will create less confusion, least to say hardship, among the preparers, users and auditors.

A possible approach is to develop a financial reporting framework for larger private companies based on the pre 2005 SSAPs with exemption granted to small companies. In the event if the existing SME-FRS is to be maintained, I would incline to adopt HKFRSs with reduced disclosures and revision, where appropriate, for larger private companies. Under such arrangement, the preparers, users and auditors would basically only need to learn and familiarize with two financial reporting frameworks.

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11th Floor, Fortis Bank Tower, 77-79 Gloucester Road, Hong Kong

Tel: (852) 2520 0333 Fax: (852) 2529 4347, (852) 2527 5271 E-mail: nexia@charles-marfan.com

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Size Criteria for Small Group

I would suggest that a consultation should be carried out among preparers, users and relevant stakeholders to solicit their views on the size criteria most suitable for the SME. It appears inappropriate that the size criteria be solely determined by HKICPA.

Cash Flow Statement

I am not convinced that cash flow statement, particularly prepared under an indirect method, would provide users of financial statements useful information. I am in favour that the preparation of cash flow statement should be optional.

I hope that the foregoing comments are of use to you in developing an appropriate financial reporting framework for Hong Kong for the larger private companies. Should you enquire any clarification, please do not hesitate to contact me.

Yours sincerely



Thomas Y.T. Wong  
Managing Partner



Please express your views to the two consultation documents by completing this Questionnaire which will form a submission to the Financial Reporting Standards Committee.

### Consultation Paper on Financial Reporting by Private Companies

Q.1 - Do you agree that relief from applying full HKFRSs should be permitted for private companies? Please explain your reasons.

Agree  Disagree

Reason: \_\_\_\_\_  
\_\_\_\_\_

Q.2 - Do you agree that the SME-FRF&FRS is an appropriate reporting option for small private companies and groups? Please explain your reasons.

Agree  Disagree

Reason: \_\_\_\_\_  
\_\_\_\_\_

Q.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.

Agree  Disagree

Reason: SEE ADDITIONAL COMMENTS.  
\_\_\_\_\_

Q.4 - Do you agree with the view of Council that the SME-FRF & FRS does not meet the reporting needs of the users of the financial statements of large private companies; and the SME-FRF & FRS should not be expanded to meet those needs? If not, why not?

Agree  Disagree

Reason: SEE ADDITIONAL COMMENTS  
\_\_\_\_\_

Q.5 - Do you agree that the Institute should adopt or develop a large private company financial reporting framework? There are 3 options mentioned in paragraph 37 of the Consultation Paper, set out as follows:

- (1) HKFRS with reduced disclosures;
- (2) IFRS for SMEs; and
- (3) IFRS for SMEs with additional simplifications.

Which of the above options do you think is appropriate for developing large private company financial reporting framework? Please explain your views.

Option 1  Option 2  Option 3

Reason: SEE ADDITIONAL COMMENTS  
\_\_\_\_\_

Q.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.

Preparer  Auditor  User

\_\_\_\_\_

**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)**

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

Agree  Disagree

Reason: \_\_\_\_\_  
 \_\_\_\_\_

Q.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?

Agree  Disagree

Reason: SEE ADDITIONAL COMMENTS  
 \_\_\_\_\_  
 \_\_\_\_\_

Q.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?

Cost method:  Agree  Disagree

Equity method:  Agree  Disagree

Reason: \_\_\_\_\_  
 \_\_\_\_\_

Q.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?

Yes  No

Reason: SEE ADDITIONAL COMMENTS  
 \_\_\_\_\_  
 \_\_\_\_\_

Q.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?

Agree  Disagree

Reason: \_\_\_\_\_  
 \_\_\_\_\_

Q.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?

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Professional accountant in practice  Professional accountant in business

Name THOMAS Y. T. WONG

Organisation NEXIA CHARLES MAR FAN & CO.

-----THANK YOU-----