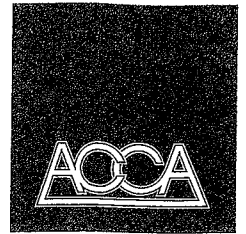


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31 AUG 2007



Patricia McBride  
Executive Director  
Hong Kong Institute of Certified Public Accountants  
37<sup>th</sup> Floor, Wu Chung House  
213 Queen's Road East  
Wanchai  
Hong Kong

30 August 2007

Dear Madam

**International Accounting Standards Board (IASB) Exposure Draft of Proposed International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs)**

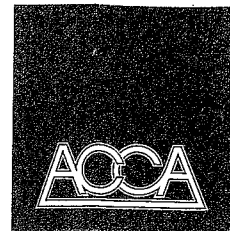
On behalf of ACCA (The Association of Chartered Certified Accountants) Hong Kong, we would like to submit our views regarding whether the proposed IFRS for SMEs, upon its finalisation, should be adopted in Hong Kong to replace the existing Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS) or whether the SME-FRF & SME-FRS should be retained.

One of the qualitative characteristics of financial statements, as set out in the proposed IFRS for SMEs, is understandability. Apart from understandability, we consider "simplicity" a fundamental criterion for SMEs' financial statements, especially for SMEs in Hong Kong, the majority of which are micro-sized entities. The users of these SMEs' financial statements are generally their owners, bankers and the Inland Revenue Department. They are concerned about liquidity and operating performance of SMEs. An accounting standard for SMEs is expected to address these users' needs while maintaining the quality of understandability and simplicity.

Although the proposed IFRS for SMEs has been significantly reduced in volume, it is still far from being simple and understandable. This is particularly so for financial assets, financial liabilities as well as deferred taxation. The proposed IFRS for SMEs fails to achieve the purpose of alleviating cost burden to SMEs, the majority of which have limited resources and expertise. On the cost and benefit consideration, we believe that the existing HK SME-FRF & SME-FRS is more appropriate to fulfil the needs of Hong Kong SMEs as well as the users of

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their financial statements. We are of the opinion that the existing SME-FRF & SME-FRS should be retained.

Should the Institute ultimately decide to adopt the proposed IFRS for SMEs, we have a particular concern regarding the tax impact of the accounting treatment of financial assets on SMEs. The option of classifying financial assets as available-for-sale and recognising changes in their fair values in equity under the full IFRS is not available for SMEs in the proposed IFRS for SMEs. We find this simplification not very helpful for SMEs as this could cause unnecessary tax burden to SMEs in Hong Kong. This is because gains in previous years arising from the change in fair value going through the P&L is taxable, but subsequent loss could not be deducted if an adjusted tax loss is derived in the following years. This causes complexities in the tax position of SMEs, and is contradictory to the primary objective of the proposed standard which aims to reduce any burden to SMEs.

Another concern arising from the proposed IFRS for SMEs is the audit opinion given to financial statements complying with the proposed standard. The application of the proposed Standard results in a 'fair presentation' of the financial position, financial performance and cash flows of the SMEs. We are not sure if this equals to a "true and fair view" or a "true and correct view" according to the Companies Ordinance requirement. We consider that this needs to be clarified.

If you wish to discuss any issues further, kindly please contact us at 2524 4988.

Yours faithfully

A handwritten signature in cursive script, appearing to read 'Morison Chan', is positioned above the printed name.

Morison Chan  
President