



Hong Kong General Chamber of Commerce
香港總商會 1861

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Helping Business since 1861

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Mr Paul M P Chan
Chairman
GAAP for Small Businesses Working Group
Hong Kong Society of Accountants
4/F Tower Two, Lippo Centre
89 Queensway, Hong Kong

Dear Paul

Consultation on "Proposed Implementation of a Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard"

Thank you for taking time from your busy schedule to discuss with members of the Chamber SME Committee on the HKSA Consultation Paper on the proposed differential financial reporting for SMEs.

We congratulate the Hong Kong Society of Accountants for the detailed study on a dedicated financial reporting package for SMEs. We would like to make the following comments.

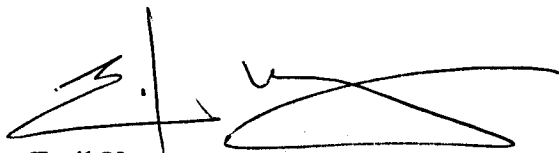
1. As banks are major users of financial reports of SMEs, their acceptance of the new standard is essential. We encouraged the HKSA to involve the banks closely in developing the new framework of accounting standards.
2. As over 95% of companies in Hong Kong are SMEs, there may be room to improve on the 87% coverage of firms under the HKSA's current proposal. Both number of staff and revenue turnover are legitimate factors to consider. In the latter case, a revenue of HK\$50 million is often used by financial institutions as a dividing line to identify companies that are more systematically run and thereby giving it a wider range of financial products. Given the diverse nature of SME's however, we suggest that more flexibility be adopted in determining eligibility, so as to allow more SMEs to benefit from the new arrangement.
3. On the new accounting standard itself, we agree that requirement on disclosure of related companies transaction would be helpful.
4. Under the current system, there is sometimes confusion caused by the different interpretations of 'true and correct' and 'true and fair'. As far as possible, SMEs would prefer a unified standard to be adopted which is effective and widely accepted, so that businesses do not have to provide multiple sets of accounts to satisfy different requirements.

5. We note that despite the simplified requirement, cost of accountancy work may not be lower for SME's as the volume of work might be more or less the same. There is, however, an expectation among SME's that the new system would enable them to get better value for money from professional accountants, e.g. with an element of financial consultancy built into the work they undertake on financial reporting under the new standard.

I hope you will find the above comments useful. As the new financial reporting standard can also help SMEs gain a better understanding of their own accounting system, it is hoped that once adopted it can be promoted and implemented widely.

Thank you.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'E' followed by a vertical line and a horizontal line, and a large, sweeping flourish that loops back to the left.

Emil Yu
Chairman
Small and Medium Enterprises Committee