Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

22 February 2012

Companies Bill Team
Financial Services and the Treasury Bureau
15/F, Queensway Government Offices
66 Queensway
Hong Kong

Dear Sirs,

Eligibility for the use of the Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard

The Hong Kong Institute of Certified Public Accountants (The Institute) is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. The Institute is committed to acting in the public interest and upholding the highest standards of financial reporting. We welcome the opportunity to provide you with our comments on the captioned consultation.

The Institute has provided its comments for the Companies Bill Team's consultation on the qualifying criteria for private companies to prepare simplified financial and directors' reports through a comment letter dated 21 December 2011, which is enclosed as **Annex 1** for your reference.

As stated in that letter, the Institute has also performed its own consultation on its proposal for the doubling the current eligibility limits for simplified financial reporting (i.e. the use of the Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF&FRS)) to HK$100m assets, HK$100m revenue and 100 employees, while maintaining the "two out of three" approach. The Institute received comment letters from various parties, including the Inland Revenue Department, Hong Kong Association of Banks and a number of regulatory bodies and accounting firms. The Institute's expanded size criteria proposal is generally supported by the commentators.

From the submission provided by the Inland Revenue Department, we understand that the HK$50m turnover threshold covers 90% of the corporation tax cases and the coverage will move up to 94% with a threshold of HK$100m. While the commentators also support the Institute's reservations concerning allowing large private companies/groups to adopt simplified reporting (i.e. the use of SME-FRF&FRS), as communicated to your team through our abovementioned submission dated 21 December 2011, we believe our proposal helps to attain a balance between the demand for expanded use of simplified reporting by the business community, and proper regulatory needs and the public interest.

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The comment letters received by the Institute are enclosed as **Annex 2** for consideration by the Bills Committee and the Companies Bills Team.

The Institute would like to reiterate that it does not support proposals to allow adoption of SME-FRF&FRS by any private company regardless of size when 75% of shareholders consent is obtained. The Institute takes the view that when any entity exceeds certain size criteria, it becomes economically and socially significant and therefore does attract public interest. This is supported by the widespread existence in other jurisdiction of size criteria for use of simplified accounting frameworks. The government's proposal also does not address the fact that many large companies are routinely involved in activities and transactions as complex as those of listed companies, e.g. use of financial instruments and complex valuations. Such matters should be accounted for under a framework that has been developed to properly measure and disclose them, i.e. Hong Kong Financial Reporting Standards (HKFRS or HKFRS for Private Entities based on international standards).

The SME-FRF&FRS was primarily developed on the basis of cost-and-benefit considerations and it is a historical cost accounting framework. A historical cost accounting framework does not reflect, with the expected degree of transparency and consistency, the state of affair of large companies or groups of companies which have more complex business and accounting requirements.

In summary, the Institute advises that it has obtained general support for the proposals in its Consultation Paper dated 6 December 2012 to increase the size criteria of SME-FRF&FRS for companies and groups to HK$100m assets, HK$100m revenue and 100 employees from the existing HK$50m assets, HK$50m revenue and 50 employees while maintaining the "two out of three" approach.

If you have any questions on our comments, please do not hesitate to contact me at chris@hkicpa.org.hk.

Yours faithfully,

Chris Joy
Executive Director

CJ/AW/jn

Encl.

c.c. Paul Chan
Chairman of Bills Committee and Legislative Councillor (Accountancy)

Ada Chung
Registrar of Companies Registry

Our Ref.: C/FRSC

Sent electronically through email co_rewrite@fstb.gov.hk

21 December 2011

Companies Bill Team
Financial Services and the Treasury Bureau
15/F, Queensway Government Offices
66 Queensway
Hong Kong

Dear Sirs,

Companies Bill Consultation Paper on the qualifying criteria for private companies to prepare simplified financial and directors' reports

The Hong Kong Institute of Certified Public Accountants (The Institute) is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. The Institute is committed to acting in the public interest and upholding the highest standards of financial reporting and welcomes the opportunity to provide you with comments on the captioned consultation paper.

The Institute supports the policy intention of the Companies Bill Team to save compliance costs for private companies while at the same time maintaining an appropriate level of transparency of companies' business through financial reporting.

The Institute has the following comments on each of the options as stated in the consultation paper:

Option 1: Large private companies/groups should not be allowed to adopt simplified reporting (i.e. no change to the proposal in the Companies Bill)

The Institute supports this option whereby large private companies/groups should not be allowed to adopt simplified reporting. Our key rationale is that when the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF&FRS) was issued in 2005 in order to provide relief for smaller Hong Kong companies from the burden of the more complex financial reporting requirements in the full Hong Kong Financial Reporting Standards (HKFRSs), SME-FRF&FRS was developed based primarily on cost-and-benefit considerations and therefore is a historical cost accounting framework. In principle, a historical cost accounting framework does not reflect, with the expected degree of transparency and consistency, the state of affairs of large sizeable companies or groups of companies with more complex business and accounting environments.

However, we consider it appropriate that the size criteria for the use of SME-FRF&FRS should be increased to more currently relevant levels, taking into account inflation and the fact that many Hong Kong owned groups have labour-intensive manufacturing operations in the Mainland. Having sought the Bills Team's endorsement for increasing the limits in the proposed Schedule to the Companies Bill, on 6 December 2011 we issued a consultation paper which proposes doubling the current limits to HK$100m assets, HK$100m revenue and 100 employees, while maintaining the “two out of three” approach. We consider that this will provide relief to most SMEs in Hong Kong while still ensuring that only entities for which the simplified reporting framework was designed are eligible to use that framework. Our consultation paper can be accessed at http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/ed-pdf-2011/nov/cp-sizecr.pdf.

You will also be aware that in 2010 the Institute issued HKFRS for Private Entities as a reporting option with the intent to relieving larger private companies/groups of the requirements to apply full HKFRSs. HKFRS for Private Entities is based on the International Financial Reporting Standard for Small and Medium-sized Entities issued by the International Accounting Standards Board. We believe that HKFRS for Private Entities is more suitable for use by private companies/groups with larger size and sophistication, being based on full HKFRSs while allowing a degree of relief from some of the more detailed accounting and disclosure requirements of full HKFRSs.

Option 2: Allowing large private companies/groups with members' approval to adopt simplified reporting

The Institute does not support option 2 which proposes to allow adoption of SME-FRF&FRS by any private company/group regardless of size provided consent is given by 75% of shareholders with no member objecting.

We have considered this proposal carefully and set out in a position paper that has been approved by the Institute Council why it is not in the public interest. Please refer
--- to the attached **Annex** for the position paper.

In addition, we note that paragraph 15 of your consultation paper states that under the current section 141D of the Companies Ordinance a private company with members' approval, irrespective of its size, is already allowed to prepare simplified reports. The consultation paper further elaborates that there is a case for allowing large private companies/groups with members' approval to adopt simplified reporting as it does not appear that the current regime has created problems. We do not agree with such reasoning. Currently companies that have a parent company registered under the Ordinance and/or one or more subsidiaries, are not eligible to use section 141D to take advantage of simplified reporting. Section 141D is currently only allowed for a single company. We consider that this indicates that size criteria are implicitly taken into account in assessing the applicability of Section 141D as carrying out large scale and complex businesses in Hong Kong using a single company structure would not be common.

Option 3: Allowing large private companies/groups with members' approval to adopt simplified reporting, subject to certain size criteria being met

The Institute is also not supportive of option 3 which proposes that large private companies/groups can opt to use SME-FRF&FRS if members holding at least 75% of the voting rights so resolve and no other members object subject to their size not exceeding a higher threshold of any two of HK$300/500 million assets, HK$300/500 million revenue and 100 employees. Our concerns expressed above in response to option 2 also apply to this proposal. We believe that full HKFRS or HKFRS for Private

Entities is more suitable for use by private companies/groups of these sizes. Furthermore, as set out in the Institute's abovementioned Consultation Paper dated 6 December 2011, and based on comparisons with other jurisdictions, we consider that doubling the current limits of SME-FRF&FRS to HK$100m assets, HK$100m revenue and 100 employees, while maintaining the "two out of three" approach, is a more appropriate indicator of the maximum size of entity that this particular historical cost accounting framework was developed for.

We hope our comments are useful for your consideration.

If you have any questions on our comments, please do not hesitate to contact me at chris@hkicpa.org.hk.

Yours faithfully,

Chris Joy
Executive Director

CJ/AW/jn

Encl.

Position Paper

Proposed changes to legislation to allow use of SME-FRS for private companies of any size with the consent of 75% of all shareholders

The Institute does not support proposals to allow adoption of SME-FRS by any private company regardless of size provided consent is given by 75% of shareholders. As the professional body responsible for setting financial reporting standards and registering and regulating accountants in Hong Kong, the Institute is committed to acting in the public interest and upholding the highest standards of financial reporting.

Accordingly, the Institute believes that it is appropriate to limit eligibility of private companies to use SME-FRS by reference to size criteria rather than allow the potential for all private companies to use SME-FRS subject to approval of 75% of all shareholders.

We understand that supporters of the proposal argue that all private companies that (a) do not have public interest, (b) are shareholder-managed and (c) do not have a need to borrow external funds should be able to use SME-FRS. All of these points need to be further assessed to determine whether they do in fact support the proposal.

(a) The proposal makes no suggestion as to how public interest would be identified in a private company leaving an implication that there is no public interest in any private company. We take the view, supported by the widespread existence of size criteria for use of simplified accounting frameworks in other jurisdictions, that it is an entirely credible proposition that when any entity exceeds certain size criteria it becomes economically and socially significant and therefore does attract public interest. The proposal also does not address the fact that many large private companies will be involved in activities and transactions every bit as complex as listed companies e.g. use of financial instruments and complex valuations. In our view such matters should be accounted for under a framework that has been developed to properly measure and disclose them i.e. Hong Kong Financial Reporting Standards (HKFRS or HKFRS for Private Entities).

(b) The proposal potentially allows financial statements to be prepared under a simplified framework that is not agreed to by 25% of the company's shareholders, which is a significant minority. We are concerned that there are likely to be a number of private company shareholders who do not understand the technical complexities of certain transactions or activities and therefore decisions on the use of an accounting framework may be made without a full understanding of the consequences. We believe that only allowing the use of SME-FRS for companies above a certain size will ensure protection for minority or non-technically skilled shareholders of companies that are likely to engage in complex or specialised activities or transactions.

(c) Borrowing requirements may change over time and therefore may have to switch between accounting frameworks from year to year. This is not desirable and may result in additional burdens on companies that have to re-state previous period information from SME-FRS to HKFRS.

We also believe that there are a number of matters concerning the use of SME-FRS that need to be fully understood to ensure that decisions on potential changes to eligibility of companies to use SME-FRS are made in a properly informed manner. Our observations are set out below.

The original design of SME-FRF&FRS was not intended for sizeable companies with more complex financial affairs

1. SME-FRF&FRS was developed essentially for SMEs, which generally have much simpler accounting requirements, as an alternative to the full HKFRSs, based primarily on cost-and-benefit considerations. As such, the SME-FRF&FRS, in principle, will not reflect, with the expected degree of transparency and consistency, the state of affairs of sizeable companies or groups of companies with more complex business and accounting environments. Please refer to the SME-FRS factsheet as enclosed as **Appendix 1** for details of SME-FRS does not address important areas that may well affect larger private companies.

2. We are of the view that if large private companies are involved in business activities and transactions of similar nature and complexity as listed companies they should be required to use the same accounting framework to ensure appropriate measurement and disclosure. Therefore if the proposal to allow private companies and groups of any size to prepare financial statements using the SME-FRF&FRS were accepted, additional accounting guidance may need to be included in the SME-FRS to make it comprehensive enough to be suitable for the largest of companies which had become eligible to use it, and their more complex financial affairs. This added length and complexity would in turn reduce the benefits of the SME-FRF&FRS for those SMEs which are smaller in size and for whom it was originally intended.

SME-FRF&FRS is not designed to result in financial statements which give a true and fair view

3. Due to the simple design and intention of SME-FRF&FRS, the reporting obligation on entities following the SME-FRF&FRS is to ensure that the financial statements have been properly prepared, in all material respects, in accordance with the requirements of the SME-FRF&FRS. Entities and their auditors are not required to consider whether the financial statements include sufficient disclosure and appropriate accounting policies in order to show a true and fair view.

4. Similar to our view in point 2 above, consideration would need to be given to whether the disclosures included in the SME-FRS are sufficient to be suitable for the largest of companies which were eligible to use it, and their more complex financial affairs. This added disclosure burden would in turn reduce the benefits of the SME-FRF&FRS for those SMEs which are smaller in size and for whom it was originally intended.

Our proposal to limit eligibility for simplified financial reporting by reference to size criteria is consistent with and no more stringent than other jurisdictions

5. Our view is that it is appropriate to apply size criteria to exempt the large majority of private companies in Hong Kong which have straightforward operations. At the time when the current limits of $50m assets, $50m turnover and 50 employees were set in 2005 we understood that this could potentially exempt more than 80% of private companies incorporated in Hong Kong, including many property holding companies. It should be noted that an entity is still eligible to use the SME-FRF&FRS if it fails one of the size criteria. For example, a property holding company may still be regarded as eligible for the SME-FRS&FRF if the property is worth more than $50m, provided that the company does not have more than 50 employees and does not generate more than $50m annual turnover.

6. We consider it appropriate that thresholds are increased to more currently relevant levels, taking into account inflation and the fact that many HK owned groups have labour-intensive manufacturing operations in the Mainland. Having sought the Bills Team's endorsement for increasing the limits in the proposed Schedule to the Companies Bill, we have on 6 December 2011 issued a consultation paper which proposes doubling the current limits to $100m assets, $100m turnover and 100 employees, while maintaining the "two out of three" approach. We consider that this will provide relief to most SMEs in HK while still ensuring that only those entities for which the simplified reporting was designed are eligible to use that framework. Our consultation paper can be accessed at http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/ed-pdf-2011/nov/cp-sizecr.pdf.

7. The Institute noted that, for example, in the UK and other jurisdictions like China and Singapore, companies and groups may apply simplified reporting frameworks only if they meet size criteria. There is no provision for companies and groups that do not meet the size criteria to opt for simplified reporting, subject to shareholder consent. We believe that proposed size criteria expansion for simplified financial reporting are not more stringent than the other jurisdictions. Please refer to the relevant requirements in UK, Singapore and China as enclosed as **Appendix 2** for reference.

8. Regionally, a number of jurisdictions are moving towards the adoption of full IFRSs and IFRS for SMEs, upon which the HKFRSs and HKFRS for Private Entities are based. Therefore, Hong Kong's position as an international financial centre, and a leading light of good corporate governance and transparency within the region, could be disadvantaged if our new company law were to provide for more extensive adoption of SME-FRS by sizeable and economically significant private companies/groups.

Maintenance of financial discipline and corporate governance

9. The Institute is aware of the argument that, if shareholders are satisfied with the information available to them, and major creditors can ask for more information if they wish to as a condition of extending credit, then why should groups or larger private companies not be able to reduce their costs by taking advantage of a simplified financial reporting framework.

10. We are of a view that the adoption of the accounting framework/standard, which is suitably designed for and appropriate to the size and sophistication of the business, is important for maintaining a reasonable level of financial discipline and corporate governance. In our view this is also crucial for maintenance of the competitiveness of Hong Kong's business environment and should be accepted as a price to pay for the protection of conducting business through a limited liability corporate entity. As illustrated in paragraphs 5-8, we believe that size requirements to determine the application of an appropriate accounting framework in Hong Kong are consistent with and no more stringent than other jurisdictions.

HKFRS for Private Entities is more suitable for use by SMEs with larger size and sophistication

11. Since 30 April 2010, entities that do not have public accountability have had the option of adopting HKFRS for Private Entities for financial reporting purposes, which are less onerous than the full HKFRS. The HKFRS for Private Entities is based on IFRS for SMEs issued by IASB.

By eliminating some accounting treatments permitted under full HKFRSs, removing topics and disclosure requirements that are not generally relevant to Private Entities, and simplifying requirements for recognition and measurement, the HKFRS for Private Entities substantially reduces the volume of the standard available for application by Private Entities when compared with the full set of HKFRSs. It is also considered that the HKFRS for Private Entities is a stable financial reporting platform with less frequent amendments than HKFRSs.

We believe that HKFRS for Private Entities is more suitable for use by SMEs with larger size and sophistication, to allow entities a degree of relief from accounting requirements under full HKFRSs.

12. Please refer to the "HKFRS for Private Entities in your pocket" publication, which is jointly published by the Institute and Deloitte, for highlights of the standard as well as the key differences with the full HKFRSs for reference. The document can be accessed at: http://www.deloitte.com/assets/Dcom-China/Local%20Assets/Documents/Services/Audit/2011Publications/cn_audit_HKFRS_PrivateEntitiesPocket_280411.pdf.

13. The Institute's Standard Setting Department has also produced a high level comparison between HKFRS for Private Entities and SME-FRF&FRS for users' reference. The document can be accessed at: http://www.hkicpa.org.hk/file/media/section6_standards/standards/hkfrs-pe-info-center/other-ts/2010/hlv-pe-sme-fdf-frs.pdf.

14. Please refer to the Institute's Statement of Intent on the issuance of HKFRS for Private Entities for further information on the reasons behind the issuance of HKFRS for Private Entities as a financial reporting option in Hong Kong. The document can be accessed at: http://www.hkicpa.org.hk/file/media/section6_standards/standards/hkfrs-pe-info-center/stat-intent.pdf

<u>SME-FRS Fact Sheet</u>

Fair presentation
Compliance with SME-FRS would not result in financial statements giving a true and fair view as SME-FRS is only a cost based model and therefore not robust enough to be classified as a fair presentation framework. This is suitable for small micro companies but not medium or larger sized private companies.

Financial instruments
SME-FRS does not contain separate section on financial assets and financial liability. Only forward contracts are addressed under Section 15 *The Effects of Changes in Foreign Exchange Rates* of SME-FRS. Accordingly, if a company enters into a transaction related to derivative or other complex financial instruments, SME-FRS does not contain the relevant accounting or disclosure requirements. Therefore if a large company with complex transactions uses the SME-FRS, a lot of the transactions will not be properly accounted for under SME-FRS.

Long-term investments
SME-FRS adopts the cost less accumulated impairment losses for long-term investments only (investments in associates and interests in joint ventures), whereas equity method and proportionate consolidation (for joint ventures only) are required under HKFRS.

Investment property/property, plant and equipment/intangible assets
SME-FRS only allows cost-depreciation-impairment model for investment property, property, plant and equipment and intangible assets whereas HKFRS permits fair value model for investment property and revaluation model for property, plant and equipment and intangible assets.

Borrowing costs
SME-FRS allows (but not mandatorily require) capitalisation of borrowing cost at preparer's discretion, whereas HKFRS mandatorily require capitalise of borrowing cost directly attributable to the acquisition, construction or production of a qualifying asset.

Other omitted topics
SME-FRS is silent in the accounting for the following:
- Share-based payment
- Employee benefits
- Deferred taxation
- No distinction between functional and presentation currency
- Hyperinflation
- Lessor accounting
- Specialized activities – agricultural activities, extractive activities and service concession arrangements

Comparison with other jurisdictions

Singapore

1. The Accounting Standards Council of Singapore issued the Singapore Financial Reporting Standard for Small Entities (SFRS for Small Entities), which is based on IFRS for SMEs, as an alternative framework to the Singapore Financial Reporting Standard (SFRS). Since that time, Singapore has had two frameworks for financial reporting:

- SFRS, which is nearly identical to IFRSs and to be fully converged with IFRSs in 2012; and
- SFRS for Small Entities, which is based on the IFRS for SMEs.

2. An entity is eligible to the apply the SFRS for Small Entities if it is not publicly accountable, publishes general purpose financial statements for external users, and meets the definition of a 'small entity' (for each of the previous two consecutive financial reporting periods, with amended application to newly incorporated entities). An entity qualifies as a small entity if it meets at least two of the three following criteria:

- Total annual revenue of not more than **S$10M (approximately HK$61.7M)**;
- Total gross assets of not more than **S$10M (approximately HK$61.7M)**; and
- Number of employees not more than **50**.

In the case of an entity that has one or more subsidiaries and is required or chooses to prepare consolidated financial statements, the total annual revenue, total gross assets and total number of employees are determined on a consolidated basis, and not on the basis of the entity as a single economic entity.

United Kingdom

3. As in other member States of the European Union, UK companies listed on a stock exchange in the United Kingdom are required to follow IFRSs as adopted by the EU in their consolidated financial statements from 2005. All other UK companies, for their consolidated financial statements, are permitted to use IFRSs or to follow the accounting principles established by the United Kingdom Accounting Standards Board (UKASB), as follows:

Companies other than small companies

Unlisted companies other than small companies must follow:

- Financial Reporting Standards (FRS) issued by UKASB
- Statements of Standard Accounting Practice (SSAPs) adopted by UKASB
- UITF Abstracts issued by the Urgent Issues Task Force (UITF) of UKASB

Small unlisted entities

4. Small companies may elect to report under the Financial Reporting Standard for Smaller Entities (FRSSE), which gives exemptions from applying all other accounting standards.

   The definition of a small company is contained in sections 382 and 383 of the UK Companies Act 2006. The qualifying conditions are met by a company in a year in which it does not exceed two or more of the following criteria:

   - Turnover of **£6.5M (approximately HK$80M)**
   - Balance sheet total of **£3.26M (approximately HK$40M)**
   - Average number of employees **50**

   Certain companies are excluded by section 384 from the "small company" criteria for reasons of public interest. These are any entity that is, or is in a group that includes:

   - A public company;
   - A small company that is an authorised insurance company, a banking company, an e-money issuer, a Mifld investment firm or a UCITS management company or a company that carries on insurance market activity;
   - A body corporate (other than a company) whose shares are admitted to trading on a regulated market in an EEA State; or
   - A person (other than a small company) who has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity.

5. A parent company shall not be treated as qualifying as a small company in relation to a financial year unless the group headed by it qualifies as a small group. The definition of a small group is contained in section 383 of the UK Companies Act 2006 and the qualifying conditions are met by a group in a year in which it does not exceed two or more of the following criteria:

   - Aggregate turnover of **£6.5M net (or £7.8M gross)**
   - Aggregate balance sheet total **£3.26M net (or £3.9M gross)**
   - Average number of employees **50**

   "Net" means after the set-offs and other adjustments required by Schedule 6 of the UK Small Companies and Groups (Accounts and Directors' Report) Regulation 2008 in the case of group accounts, and "gross" means without those set-offs and adjustments. A company may satisfy the relevant requirements on the basis of either the net or the gross figure.

Mainland China

6. New PRC GAAP (or Generally Accepted Accounting Principles) is closely based on IFRSs and has been adopted by many enterprises since it took effect on 1 January 2007. For example,

- A share listed companies, insurance companies, securities companies and fund management companies adopted New PRC GAAP as from 1 January 2007;
- Large state-owned enterprises adopted New PRC GAAP no later than 1 January 2008; and
- Financial institutions in the banking industry adopted New PRC GAAP no later than 1 January 2009.

7. New PRC GAAP is expected to be adopted by all medium and large sized enterprises. Once that target is achieved, the MOF is expected to abolish all Industrial Accounting Rules, Accounting Regulations for Business Enterprises and other related rules. This would result in a nationwide and unified accounting standard, aimed at promoting the sustainable development of enterprises, as well as improving capital markets. The specific details of the latest dates for adoption are, or will be, set out in rules issued, or to be issued, by the relevant regulatory authorities (e.g. local finance bureaux). The authorities that have already issued their rules include Guangzhou, Shanghai, Liaoning, Dalian, etc.. It is prudent to expect that those bureaux that have not yet issued notices will do so in the near future.

8. The current criteria for the classification of medium and large-sized enterprises are set out in “Notice on regulations on classification standards for small and medium-sized enterprises” (Gong Xin Bu Lian Qi Ye [2011] No.300). Specifically, medium and large-sized enterprises are those enterprises that meet all the following criteria in their respective industry.

Industry	**Employee**	**Operating income**	**Total assets**
Industrial[a] & Postal service	>=300 people	>=20 million CNY	-
Construction	-	>=60 million CNY	>=50 million CNY
Wholesale	>=20 people	>=50 million CNY	-
Retail	>=50 people	>=5 million CNY	-
Transportation[b]	>=300 people	>=30 million CNY	-
Lodging and food service	>=100 people	>=20 million CNY	-
Agriculture, forestry, husbandry and fishery	-	>=5 million CNY	-
Warehousing, Information transmission[c] & Software and IT service	>=100 people	>=10 million CNY	-
Real estate	-	>=10 million CNY	>=50 million CNY
Property management	>=300 people	>=10 million CNY	-
Leasing and business service	>=100 people	-	>=80 million CNY
Others[d]	>=100 people	-	-

(a) Including mining, manufacturing, power and heat generation and supply, gas and water production and distribution.

(b) Excluding railway.

(c) Including telecommunication, internet and related services.

(d) Including scientific research and technical service, management of water conservancy, environment and public facilities, household service, repairing and other services, social work, culture, sports and entertainment.

9. Currently, if an enterprise fails just one of the above criteria, the enterprise is classified as a small or micro-sized enterprise and can elect to adopt either New PRC GAAP or the Accounting Regulations for Small Enterprises. The only exceptions are those small or micro-sized enterprises with any one or more of the following characteristics:

- the small or micro-sized enterprise is in the form of a sole proprietorship or partnership enterprise;
- the small or micro-sized enterprise issues public stock or debentures; and
- the small or micro-sized enterprise's parent company or any of that parent company's subsidiaries is classified as a medium or large-sized enterprise.

These types of small or micro-sized enterprises are not permitted to adopt the Accounting Regulations for Small Enterprises and instead should follow the Standards applicable to the larger enterprises in their local district.

Annex 2

CL 1

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ALL CORRESPONDENCE SHOULD BE ADDRESSED TO:—
COMMISSIONER OF INLAND REVENUE,
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Your Ref.: C/FRSC
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IN ANY COMMUNICATION PLEASE QUOTE OUR FILE NO.
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Mr. Chris Joy
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Certified Public Accountants
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Wanchai, Hong Kong

Dear Mr. Joy,

Consultation Paper on eligibility for the use of Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard

I refer to your letter dated 9 December 2011 inviting for comments on the above Consultation Paper.

In principle, the Department accepts financial statements that comply with law requirements and that are prepared in accordance with Generally Accepted Accounting Principles so long as assessable profits are readily ascertainable and the accounting framework adopted are consistently applied.

The Department has no objection to allowing the small and medium-sized private entities and groups to simplified financial reporting by adopting the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard ("SME-FRF and FRS").

However, as the SME-FRF & FRS was developed essentially for SMEs, its simpler accounting and disclosure requirements will not be adequate to properly reflect the state of affairs of large companies or groups of companies with their more complex financial affairs. In this connection, the Department has reservation in extending the use of SME-FRF & FRS to cover large private companies and groups.

Furthermore, large private entities already have the option of adopting Hong Kong Financial Reporting Standard for Private Entities which is less onerous than the full Hong Kong Financial Reporting Standard.

As regards the specific issues raised in the Consultation Paper, the Department's views are set out in the Appendix for your consideration.

Yours sincerely,

Lam Choi Wah

(Mrs WU LAM Choi-wah)
for Commissioner of Inland Revenue

Appendix

HKICPA Consultation Paper of 6 December 2011
Comments of the Inland Revenue Department ("IRD")

Consultation Issue

The Institute understands that the determination of size criteria to prepare simplified financial reports is important for practitioners, including both the professional accountants in business and auditors, and hence is prepared to relax the size criteria in the SME-FRF as recommended above and to request the Companies Bill Team and the Bills Committee of the Legislative Council to consider making equivalent amendments to the relevant Schedule in the final Legislation.

This Consultation Paper is prepared to enable the Institute to understand more on the concerns and comments from stakeholders before formulating the Institute's final view on the issue. In particular, the Institute welcome comments on the following questions:

Question 1

Do you consider the Institute's proposed size criteria for the preparation of Simplified Financial Report as explained in paragraphs 10-22 are appropriate?

IRD's comments:

With respect, IRD does not support the Institute's proposal to increase the size criteria for simplified financial reporting from HK$50M to HK$100M.

During the Institute's consultation on proposed introduction of SME-FRF in 2004, we advised that a turnover threshold of HK$50M covered about 89% of corporation cases. Statistics for the year of assessment 2010/11 shows that the HK$50M turnover threshold covers 90% of the corporation cases. If the threshold is lifted to HK$100M, the coverage will move up to 94%, leaving only a small portion of large private companies with substantially high turnover.

We would like to point out that some overseas criteria might not be directly comparable, and we have to be careful in not going too far in relaxation as compared to other jurisdictions. For example, the SME-FRF and FRS of Hong Kong is simpler and much less onerous than the Financial Reporting Standard for Small Entities of Singapore which is based on IFRS-SMEs.

We consider it inappropriate to extend the use of SME-FRF & FRS to large companies as they have more complex business affairs. After all, the large private companies have the option of adopting HKFRS for Private Entities which is based on IFRS-SME.

We have no objection to the "two out of three criteria" approach.

We have no objection to extending the scope to cover groups of small private companies.

We also have no objection to the proposed threshold for a small guarantee company or a group of small guarantee companies.

Question 2

If you consider the Institute's proposed size criteria above is inappropriate and have alternative proposals on the magnitude of the size criteria, please provide details of your proposal and the bases for your proposal.

IRD's comments:

As mentioned in our comments on Question 1 above, IRD consider the turnover threshold of HK$50M adequate as it is able to offer a broad coverage of private companies to which the SME-FRF & FRS would apply.

In terms of the number of employees, the benchmark of 50 is in line with the criteria adopted by overseas jurisdictions like United Kingdom and Singapore.

On balance, we suggest no change be made to the threshold of HK50M for turnover and assets and 50 employees as proposed in the Revised Companies Bill [i.e. paragraph 9].

We agree that the same set of criteria be applied to a group of small companies.

Update received on 14 Feb 2012

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INLAND REVENUE DEPARTMENT
REVENUE TOWER,
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網址 Web site: www.ird.gov.hk
來函請寄「香港郵政總局郵箱132號稅務局局長收」
ALL CORRESPONDENCE SHOULD BE ADDRESSED TO:—
COMMISSIONER OF INLAND REVENUE,
G.P.O. BOX 132, HONG KONG.

來函編號：
Your Ref.: C/FRSC
來函請敘明本局檔案號碼
IN ANY COMMUNICATION PLEASE QUOTE OUR FILE NO.

檔案號碼：
File No.: HQ 502/141 Pt.16

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發出日期：
Date of Issue: 14 February 2012

Mr. Chris Joy
Executive Director
Hong Kong Institute of
Certified Public Accountants
37/F, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Dear Mr. Joy,

Consultation Paper on eligibility for the use of Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard

I refer to the meeting between the representatives of the Institute and the Inland Revenue Department on 10 February 2012.

The Department shares the view of the Institute that it is not appropriate to extend the use of SME-FRF & FRS to companies of any sizes. Regarding the Institute's proposal to increase the size criteria for eligibility to simplified reporting, the main concern of the Department is whether the design of SME-FRF & FRS can provide adequate disclosure to reflect the state of affairs of larger companies in respect of their likely more complex financial affairs, for example, related party transactions. The Department's stance is that disclosure should be sufficient to enable proper and correct tax assessments to be made without creating disproportionate administrative and compliance burden on the companies and the Department.

Having had the benefits of further explanations and additional information for the proposed changes to the qualifying thresholds, I am pleased to inform that the Department has no objection to the Institute's proposed increase in the turnover, asset and employee thresholds to $100M, $100M and 100 respectively.

IR 678(1) (7/2010)

Last but not the least, I wish to thank the Institute's representatives for the frank and open discussion.

Yours sincerely,

Lam Choi-wah

(Mrs WU LAM Choi-wah)
for Commissioner of Inland Revenue

THE
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OF
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16 January 2012 By email: commentletters@hkicpa.org.hk

Mr. Chris Joy
Executive Director
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37th Floor, Wu Chung House
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Wanchai, Hong Kong

Dear Mr. Joy

Consultation Paper on Eligibility for the Use of Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard (Consultation Paper)

Thank you for your letter dated 9 December 2011, inviting our comments on the above Consultative Paper. We would like to set out our comments on the Consultation Paper below for your consideration.

We welcome the proposal to align the size criteria between the Companies Bill and the Small and Medium-sized Entity Financial Reporting Framework (SME-FRF) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

We support relaxing the criteria by HKICPA on employee numbers from 50 to 100 to qualify for simplified financial reporting. In addition, market inflation should be considered in the existing size criteria since the SME-FRF was issued in 2005. We also support HKICPA's proposed size criteria on total revenue and total assets to qualify for simplified financial reporting (i.e. HK$100 million).

We would also like to share with you our views set out below in connection with the size criteria on financial reporting for larger private companies.

The SME-FRF's intent is to provide relief for smaller Hong Kong companies

- The SME-FRF was developed for SMEs as an alternative to the full Hong Kong Financial Reporting Standards (HKFRS) (e.g. listed entities are required to comply) and has considerably simpler accounting requirements which are capable of being managed by book-keepers or accounting technicians. We understand that it was originally developed to cater to the needs of very small companies.

- We have taken the view that large and very large companies/groups with more complex accounts and activities should have the financial and fiscal discipline and resources to prepare accounts that show a true and fair view and that qualified accountants should be involved in their preparation. The existing exemption for large private companies/groups to prepare accounts in accordance with HKFRS for Private Entities (HKFRS for PE) satisfies this need while also providing relief from compliance with full HKFRS.

Auditor's report

- For simplified financial reporting under the SME-FRF, there is no requirement for auditors to state whether the accounts give a true and fair view of the company's financial position and financial performance. Instead, the auditor's report will state whether the accounts have been properly prepared in compliance with the applicable standards (i.e. not a full scope audit as it is not a true and fair view audit opinion).

- We believe for large and very large companies/groups, the public interest is best served by requiring, at a minimum, accounts prepared under HKFRS for PE or full HKFRS with the requirement for the auditor to perform a full scope audit. Even though not all stakeholders such as general creditors, suppliers and employees may have the statutory right to receive accounts and audit reports, it is important that a degree of fiscal discipline should be required from such companies.

Banks as users of financial statements

- From a bank's perspective as a user of financial statements, relaxing the reporting requirements beyond what is proposed by the HKICPA will reduce the transparency of the state of affairs of larger companies with more complex activities. The review of the customer's financial statements is a core part of the bank's lending approval process. Some of the key performance indicators are not required to be disclosed under SME-FRF simplified financial reporting. For example, there is no requirement to present a cash flow statement, investments are generally carried at cost or net realisable value (fair value disclosure is not required for unlisted investments), and there is no guidance on derivatives or hedge accounting except for forward contracts.

- If larger companies adopt simplified financial reporting under the relaxed criteria, banks may still require those companies to furnish accounts prepared under HKFRS for PE with full scope audits. This means companies, even if they qualify for simplified financial reporting, may have to nevertheless prepare accounts under HKFRS for PE to meet with the banks' internal requirements. In the absence of a legal requirement to prepare accounts that show a true and fair view, access to credit by large companies could potentially become more difficult.

Comparison with other jurisdictions

- We note that the SME-FRF's proposed size criteria as outlined in HKICPA's Consultation Paper are less stringent than Singapore, the United Kingdom and the People's Republic of China. These jurisdictions have different accounting and reporting requirements for large and small companies.

We hope you would find our comments useful. Should you require any further information, please do not hesitate to contact us.

Yours sincerely

Ronie Mak
Secretary

CL 3

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RECEIVED 13 JAN 2012

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Our ref CSM/DPP/20

Contact Catherine Morley
2826 7228 (direct line)

12 January 2012

Dear Sir

Consultation Paper on eligibility for the use of Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard

With reference to the above Consultation Paper, we support the initiative taken by the HKICPA to update the limits in the SME FRF and for those limits to be used as the basis of the eligibility thresholds for the simplified reporting regime to be included in the re-written Companies Ordinance. In this regard, please find attached for your information a copy of our submission to the Bills Committee on the Companies Bill on their Consultation Paper dated 6 December 2011, in which we express support for setting a single set of criteria for eligibility for the use of the SME FRF and FRS ("option 1"), explain our concerns relating to their options 2 and 3 and repeat our previous comment that, in our view, the size criteria would be better defined by explicit reference to the SME FRF as issued by the HKICPA, instead of setting out the absolute amounts in a Schedule to the Ordinance.

As stated in that letter, we noted from the Government's Consultation Paper that the revised size criteria proposed by the HKICPA would allow the substantial majority of private entities to be automatically qualified for the simplified reporting regime. We also noted that by comparison with other reporting regimes, these revised limits would appear on the high side. However, in the interests of reaching a compromise with those who are concerned at the cost-benefit considerations for private companies and groups of having to comply with a more complex "true and fair" financial reporting regime, we do not object to these proposed thresholds of \$100m annual revenue, \$100m assets and 100 employees for the "two out of three" test.

If you require any clarification of our comments, please do not hesitate to contact us.

Yours faithfully

Enclosures:
Copy of letter dated 12 January 2012 to The Bills Committee on Companies Bill

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COPY

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Hong Kong

Your ref CBT/14/7/1

Our ref CSM/DPP/20

Contact Catherine Morley
2826 7228 (direct line)

12 January 2012

By fax and post

Dear Sirs

Bills Committee on Companies Bill
Consultation on the Qualifying Criteria for Private Companies to prepare Simplified Financial and Directors' Reports

KPMG appreciates the opportunity to confirm our views on the qualifying criteria for private companies to prepare simplified financial and directors' reports, as requested in your letter dated 6 December 2011 and the accompanying Consultation Paper.

In respect of the requirements related to simplified financial statements, we note that we commented to the Bills Team on the draft Companies Bill in our letter dated 18 August 2011.

In that letter, we noted that in the gazetted Companies Bill a decision was taken to remove entirely the possibility of a 75% shareholder vote allowing larger companies and groups to adopt the SME FRF and FRS. We expressed the view that this has the advantages of simplifying the provisions of the proposed Ordinance and maintaining a closer relationship between the accounting requirements of the proposed Ordinance and those issued by the HKICPA. It also is consistent with international practice of allowing simple "properly prepared" financial statements which follow basic book-keeping requirements only for the smallest of companies, whilst larger private companies and groups will follow either the HKFRS for Private Entities (adopted from the IFRS for SMEs issued by the International Accounting Standards Board (IASB) or full HKFRSs (adopted from full IFRSs issued by the IASB) and prepare financial statements which "give a true and fair view". We therefore welcomed the position taken by the Administration in the Companies Bill as currently drafted and were not supportive of relaxing the requirements.

We continue to hold these views and therefore support Option 1, as set out in the Consultation Paper dated 6 December 2011 and do not support Option 2. We would also note in respect of the rationale in the Consultation Paper in support of Option 2 as set out in paragraph 15, that it would be a misapprehension to equate the current Section 141D regime with a proposal to allow any private company or group to adopt the HKICPA simplified reporting regime, on the basis that the section 141D regime can be adopted by any private entity "irrespective of size" (setting aside the industry exclusions, which are common to both sets of requirements). This is because section 141D is not available to those private companies which have any subsidiaries of their own and/or are themselves subsidiaries of any company formed or registered under the Companies Ordinance. This restriction, which is set out in section 141D(3)(a), explicitly prevents any private groups from applying section 141D and thereby has effectively acted in lieu of explicit size tests in many cases. Allowing private groups (or companies which are themselves subsidiaries of Hong Kong companies) of any size to follow the simplified reporting regime (as per Option 2) could therefore be reasonably expected to significantly expand the reach of the simplified reporting regime beyond the current status quo.

In respect of Option 3, we note from the Consultation paper that the revised size criteria proposed by the HKICPA would allow the substantial majority of private entities to be automatically qualified for the simplified reporting regime. We also note that by comparison with other reporting regimes, these revised limits would appear on the high side. We therefore no longer consider it necessary or appropriate to offer a further size band above the revised levels proposed by the HKICPA, based on a multiple of these criteria, to allow large private companies to adopt the simplified regime and would expect that in practice such an approach would be in effect a reversion to Option 2.

One further comment we made in our letter of 18 August 2011 concerned the specification of the size criteria in Schedule 3. We noted that Schedule 3 has copied the size criteria currently set out in the SME FRF of $50m annual revenue, $50m assets and 50 employees and we stated that we consider that it would be consistent with the objective of modernising the Ordinance, for sufficient scope to be allowed in Schedule 3 for the two monetary criteria to be updated from time to time to reflect changing prices, without the process requiring specific amendment to Schedule 3. For example, this could be facilitated by Schedule 3 defining these criteria by explicit reference to the SME FRF as issued by the HKICPA, instead of setting out the absolute amounts. This would give scope for the HKICPA, as the body granted standard-setting authority under the Professional Accountants' Ordinance, to set higher thresholds for the revenue and asset tests in response to changing prices or growth in asset values. We continue to consider that this would be a more appropriate approach in principle. However, if the revised levels as proposed by the HKICPA are reflected in the final Schedule 3, then, from a practical perspective, this lessens our concern at least for the medium term.

If you require any clarification of our comments or suggestions, please do not hesitate to contact us.

Yours faithfully

KPMG

cc:
Mr Chris Joy, Executive Director, HKICPA

CL 4

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BY EMAIL: commentletters@hkicpa.org.hk

Mr. Chris Joy
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Wan Chai, Hong Kong

16 January 2012

Dear Mr Joy,

CONSULTATION PAPER - ELIGIBILITY FOR THE USE OF SMALL AND MEDIUM-SIZED ENTITY FINANCIAL FRAMEWORK AND FINANCIAL REPORTING STANDARD (HKICPA CP)

We welcome the invitation to comment on the proposed revision of the eligibility criteria for the use of the Small and Medium-sized Entity Financial Framework and Financial Reporting Standard (SME-FRF&FRS).

General comments

We strongly believe that as a major international financial centre it is imperative that Hong Kong should have, and maintain, a robust financial reporting regime. As such, this includes a financial reporting regime for domestic private companies and groups that is comparable to, and no less rigorous, than is found in other international financial centres.

As quoted in the HKICPA CP, Singapore and the United Kingdom both have similar financial reporting regimes to Hong Kong, with different accounting and reporting requirements for large and small private companies. Both jurisdictions use similar threshold criteria to determine the maximum size for a small private company. Private companies exceeding those threshold criteria are not permitted, in any circumstances, to use the relaxed/simplified reporting requirements afforded to qualifying small private companies; not even if there's unanimous members' approval. We agree with this approach for Hong Kong, as the HKICPA has introduced the Hong Kong Financial Reporting Standard for Private Entities (HKFRS-PE), which provides simplified reporting for such sized private companies and groups.

Size criteria and qualifying as private

Qualification size thresholds

We are unconvinced by the HKICPA CP that the turnover and total assets thresholds in the size criteria should both be raised to as high as HK$100m. We disagree with increasing the employee threshold to 100. We do not agree that there should be higher size thresholds for groups, as is suggested in paragraph 18 of the Companies Bill Team's December 2011 Consultation Paper – Consultation on the Qualifying Criteria for Private Companies to Prepare Simplified Financial and Directors' Reports (CBT Consultation Paper).

Monetary thresholds of HK$100m (in other currency equivalents) seem much larger than the internationally accepted norm established for small companies. In this respect, and drawing on the information about other jurisdictions in the HKICPA consultation paper, we would prefer that the turnover threshold remains at HK$50m. Inflation in Hong Kong since 2005, the introduction of the SME-FRF&FRS, has been relatively benign and would not raise that limit to more than HK$60m.

We note that a large part of the differences between the monetary thresholds in other jurisdictions and Hong Kong has arisen from exchange differences caused by the depreciation of the Hong Kong Dollar against those currencies. This has the apparent effect of inflating the thresholds of the other jurisdictions in Hong Kong Dollar terms when in reality the increase in absolute terms has been relatively modest.

We note that the total assets threshold under the UK's size criteria for its small company reporting regime is set at approximately 50% of the turnover threshold amount. We believe this is to allow companies with a small asset base but relatively large turnover to qualify as small while disallowing companies with large turnover and asset bases. In Hong Kong terms this would mean a total assets threshold of, say, HK$25/30m. A concern that is expressed often in Hong Kong is that many companies have a high asset base due to investment property ownership and that a high asset threshold is required. This is perhaps fallacious, since companies only have to qualify under 2 of the 3 criteria and investment property companies may have a high asset base but low turnover and few employees. Nonetheless, for this reason we prefer that the total asset threshold should be the same amount as the turnover threshold.

In respect of the employee number threshold, 100 employees is too large. 50 employees is generally regarded internationally as being a surrogate for a small entity and, as such, we would not wish to see Hong Kong departing from this criterion.

Consequently, our preferred threshold quanta for companies are:

Turnover: HK$50/60m; Total assets: HK$50/60m; and Employees: 50.

In paragraph 18 of the CBT Consultation Paper it is suggested that the monetary thresholds for turnover and assets for private groups might be 3 or 5 times greater than those for private companies. We do not agree because raising the group thresholds takes the group outside the criteria for determining a small business.

As with other jurisdictions, a reporting entity should qualify for simplified reporting if it meets the same size criteria whether it is organized as a single company or as a group of companies. The legal structure of the reporting entity should not hinder the ability to obtain simplified reporting. However, applying higher thresholds for groups will result in sizeable entities using the SME-FRS for which it is not designed and, in so doing, their financial statements will not provide the transparency about their complexity and state of affairs that is expected or be comparable with their international peers.

Consequently, our preferred threshold quanta for groups are:

Turnover: HK$50/60m; Total assets: HK$50/60m; and Employees: 50.

<u>Qualifying as private</u>

A company/group that qualifies as small based on the size criteria, nonetheless, should not qualify for simplified reporting if it is connected with a listed company. For example, either as a member of a group that contains a listed company or as a private holding company that has a listed subsidiary. Under the qualification criteria for the UK's small private company/ group reporting regime, such private companies and private groups cannot qualify as small[1]. We consider that this is an important safeguard to the transparency and sufficiency of the information provided by all members of a group that contains one or more listed companies. Those private companies or groups that are connected with a listed company can, nevertheless, use the HKFRS-PE for the form of simplified reporting that is commensurate with their status.

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[1] Section 384, UK Companies Act 2006

Mr. Chris Joy
16 January 2012

Should you have any question in relation to this letter, please do not hesitate to contact Paul F Winkelmann or Nigel D Dealy at this office.

Yours sincerely,

Pricewaterhouse Coopers

PricewaterhouseCoopers

CL 5

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BY HAND

Mr Chris Joy
Executive Director
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

16th January 2012

Dear Mr Joy

Consultation on the Eligibility for the Use of the Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard ("the SME-FRF & SME-FRS")

Ernst & Young is pleased to comment on the above consultation.

We are supportive of the Institute's proposed size criteria for the SME-FRF & SME-FRS, to enable more private companies and groups in Hong Kong to adopt more simplified financial reporting, whilst allowing them to adopt the more complex Hong Kong Financial Reporting Standard for Private Entities or the full HKFRSs should they choose to.

We shall be pleased to further discuss this letter with you at your convenience. For this purpose, please do not hesitate to contact Mr. Tommy Fung or Mr. Paul Hebditch.

Yours sincerely

Ernst & Young

Ernst & Young

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CL 6

本署檔號 Our Ref.: (26) in UG/ASN/HKI/0 VOL 7

來函檔號 Your Ref.:

9 January 2012

Mr Chris Joy
Executive Director
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37th Floor, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong
(Fax: 2865 6776)

Dear Mr Joy,

Consultation paper on eligibility for the use of Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard

Thank you for your letter of 9 December 2011 inviting the Audit Commission to comment on the captioned subject.

We agree with the HKICPA's preliminary recommendations on the size criteria to establish the eligibility of companies to prepare simplified financial and directors' reports using the Small and Medium-sized Financial Reporting Framework and Financial Reporting Standard. We share the HKICPA's view that it is appropriate to reconsider the criteria in the light of inflation and the relaxation of section 141D of the Companies Ordinance (Cap. 32) to include groups of private companies. We also note that the proposed criteria are no more stringent than those for other jurisdictions.

Yours sincerely,

(W O TEO)
for Director of Audit

CL 7

ACCA

RECEIVED
13 JAN 2012

Chris Joy
Executive Director
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

13 January 2012

Dear Sir

Consultation paper on eligibility for the use of Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard

We refer to the Institute's letter dated 9 December 2011 regarding the above consultation paper.

On behalf of ACCA Hong Kong, we have the following comments in respect of the Institute's proposed eligibility criteria for small companies and groups of companies to prepare simplified financial and directors' reports.

We note that the size criteria is now included for small guarantee company to align the "Reporting Exemption" of the Revised Companies Bill. However, in the consultation document, the basis and justification were not provided for defining a "small guarantee company" by "total annual revenue must be not more than HK$25 million".

As such, we are unsure if this reflects the commercial reality as those criteria for small private companies.

Apart from the above, we agree to the proposed size criteria for defining a small private company and a group of small private companies as set out in the consultation paper.

Should you wish to clarify any issue, kindly please feel free to contact us.

Yours faithfully

Bernard Wu
Chairman

267506

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CL 8

The DTC Association

(The Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies)

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Our Ref.: 20/00/00
Your Ref.: C/FRSC

16th January, 2012 (Mon)

Mr. Chris Joy
Executive Director
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37th Floor, Wu Chung House, 213 Queen's Road East
Wanchai Hong Kong
(Fax No. ✆2865-6776)

Dear Mr Joy,

Hong Kong Institute of Certified Public Accountants (CPA)
Consultation paper on eligibility for the use of Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard

Thanks for your letter of 9th December, 2011 inviting us to comment on the captioned subject.

We would like to let you know that, on this occasion, our Association members have not offered any comments on this topic.

Thanks for consulting us and looking forward to more substantive discussions with you on future topics.

Yours Sincerely

Pui-Chong LUND
Association Secretary

207597

CL 9

From: Simon [mailto:simontsao05@yahoo.com.hk]
Sent: Wednesday, December 07, 2011 9:42 AM
To: P.T. Comment Letter
Subject: Re: Consultation Paper for SME

Dear Chris,

Your consultation paper on Eligibility for the Use of Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard dated 6th December, 2011 refers. My comments are as follows:

1. The point for raising the threshold to $100 million can be a good approach. However, I am more concerned as to why we choose $100 million and not $75 million? The difference in UK, Singapore and elsewhere may mean that we need not choose a round figure. My advise is to make reference to 'The Big Mac Index' for comparing different thresholds and choose one that best resembles our economy, considering in conjunction with our own CPI.
2. The next point I would like to remark is that the approach adopted by PRC is by different classes of business, which I think is not appropriate in Hong Kong because it is so in detail! I acknowledge that different class of business may have their own view as to what is 'small', so if the Government is considering this approach, I would suggest that it could only be applied for broad categories such as service, trade and manufacturing industries only.
3. On the technical side, I still doubt whether the amended Companies Ordinance can accommodate the rapid change of standards! Please note that the Professional Accountants Ordinance Chapter 50 does not make the Institute a law-making body, so the authority to change disclosures is still in question.

Thank you for your kind attention to the matter!

Merry Christmas!

With best regards,
Simon