



15 August 2011

**Sent electronically through email (bc\_03\_10@legco.gov.hk) and by post**

Our Ref.: C/FRSC, M78748

Ms. Connie Szeto  
Clerk to Bills Committee  
Bills Committee on Companies Bill  
Legislative Council Secretariat  
Legislative Council Building  
8 Jackson Road  
Hong Kong

Dear Ms. Szeto,

**Bills Committee on Companies Bill – Seeking views on preparation of simplified financial and directors' reports**

Thank you for your letter dated 28 July 2011 inviting comments from the Hong Kong Institute of CPAs ("Institute") on the above subject.

We note that during discussions on the Companies Bill, there have been suggestions from some members of the Bills Committee to relax the proposed threshold criteria for small and medium-size enterprises (SMEs) to enable simplified financial reporting standards to be adopted by more private companies.

As we indicated to the Administration in our submission on the draft Companies Bill in August 2010, SME financial reporting standards (SME-FRS) were originally developed with smaller companies and relatively simple sets of account in mind and, as such, it is appropriate to apply size criteria when determining which type of company should be permitted to adopt SME-FRS. Size criteria are also applied in relation to simplified reporting in other jurisdictions, including the United Kingdom and Singapore.

As the standard setter for financial reporting standards in Hong Kong, we believe Hong Kong financial reporting standards (HKFRSs) for private entities, which are based on International Financial Reporting Standards for SMEs, are the more appropriate standards for financial reporting by sizeable, economically significant, private companies and groups. The adoption HKFRSs for private entities, or full HKFRSs, by larger private companies is also in line with Hong Kong's commitment to ensuring transparency and good corporate governance.

Therefore, we would advise against any major expansion to the scope of companies and groups which, under the Companies Bill, may adopt SME-FRS. A significant expansion of the type of company that may use this simplified financial reporting format would, in our view, weaken the overall standard of financial reporting in Hong Kong.

Nevertheless, in order to provide greater flexibility and to ensure consistency between the amended Companies Ordinance and the SME financial reporting framework, we would recommend, upon further reflection, that, instead of stating any specific limit, the Bill simply refer to qualifying criteria that may be set out in SME-FRS issued by the Institute from time to time. This would facilitate periodic updating of the thresholds and provide greater flexibility to accommodate any significant changes in prevailing economic environment.



Procedurally, in order to adjust the qualifying size criteria for adopting SME-FRS, the Institute's due process requires us to undertake consultation with stakeholders. In this regard, you may wish to note that the Institute is planning to carry out a consultation when the re-exposure of the proposed consolidated financial statements and cash flow statements for the SME-FRS is carried out, which is expected to be in the fourth quarter of this year.

If you have any questions on the above, please do not hesitate to contact me at [peter@hki CPA.org.hk](mailto:peter@hki CPA.org.hk) or Steve Ong, the Institute's director, standard setting, at [ong@hki CPA.org.hk](mailto:ong@hki CPA.org.hk).

Yours sincerely,

Peter Tisman,  
Director, Specialist Practices

PMT/ay

c.c. The Hon. Paul Chan Mo-po, MH, JP  
(Chairman of Bills Committee on Companies Bill)

