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ACCA

Mr Steve Ong
Deputy Director
Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
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Hong Kong

30 September 2008

Dear Mr Ong

HKICPA Consultation Paper on Financial Reporting by Private Companies

Thank you for your letter dated 16 June 2008 in respect of the above subject. On behalf of ACCA (Association of Chartered Certified Accountants) Hong Kong, we would like to set out below our views in response to your questions raised in the Consultation Paper.

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

ACCA Hong Kong agrees that in principle relief should be allowed for private companies from applying the full HKFRSs. However, we consider that public accountability should always be the determining factor for the adoption of full HKFRSs. Where a private company, whether due to the nature of its operations or has a high degree of outside interest from non-management investors or other stakeholders, and is therefore publicly accountable, we consider that relief should not be permitted and full HKFRSs should be adopted.

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

We also agree that the SME-FRF and FRS is an appropriate reporting option for small private companies and groups.

Question 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.

Unless a private company is considered to be publicly accountable as mentioned under question 1, we agree that it should be provided with an option of a simpler reporting framework than HKFRSs.

Question 4 Do you agree with the view of Council stated in paragraph 34 above? If not, why not?

○ Notwithstanding the answers to questions 2 and 3, ACCA Hong Kong does not agree to the view that the SME-FRF and FRS should not be expanded to meet the reporting needs of the users of the financial statements of large private companies.

ACCA Hong Kong is of the view that a system of three very different levels of financial reporting framework is undesirable and leads to confusions as well as practical complexities for entities to transit from one level to another. We consider that the SME-FRF and FRS should be expanded to cater the needs of large private companies, such as the requirement for consolidated financial statements, but subject to the modification as indicated in the Financial Services and the Treasury Bureau's Consultation Conclusions on the Accounting and Auditing Provisions of the Companies Ordinance released in March 2008, that those companies applying section 141D should prepare accounts on a "true and fair" basis in accordance with the applicable accounting standards instead of a "true and correct" basis currently in force.

○ *Question 5 Do you agree that the Institute should adopt or develop a large private company financial reporting framework? Do you have a preliminary view as to which of the above options is appropriate? Please explain your views.*

We do not agree to the proposed three-tier financial reporting framework and our view set out above refers.

We would like to reiterate our position set out in a separate submission of the same date regarding the Exposure Draft on SME-FRF and FRS that Hong Kong should wait for the final version of the IFRS for private entities from the International Accounting Standards Board before making decisions on the development of the financial reporting framework for large private companies.

We also highlight that it is important to obtain the Inland Revenue Department's clearance of the various tax treatments in advance of any change of the financial reporting framework.

Should you wish to clarify any of the above issues, please do not hesitate to contact us.

Yours sincerely

A handwritten signature in black ink, appearing to read "Kelly Chan", written in a cursive style.

Kelly Chan
President