



15 August 2008.

Mr. Steve Ong
Deputy Director, Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Re: Consultation Paper: Financial Reporting by Private Companies

Dear Mr. Ong,

The following is our comments to the six questions of the consultation paper:

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

Answer 1: We disagree. Making relief for "full" HKFRSs available to the private companies would cause confusions. Does it mean the private can have departures and non-compliances of the accounting standards without any justification. Would it be a misconception sometimes we does not need to be very serious when complying with the HKFRSs.

We feel that either a company asserts itself to have comply with the HKFRSs (in full). Otherwise, any departure or non-compliance shall either be justified or qualified. Offer more possibility would cause the already complicated HKFRSs more difficult to be comprehended.

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.

Answer 2: We agree. There can be a group of companies involved; still, it is not justified to require such a small group to incur a burdensome costs of compliance.

This is not a lip service for the up-coming ED to the SME-FRF&FRS.

Adding a few more section would help lots of private group to present those accounts more timely and cost-efficient yet with sufficient details to most users in concern.

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 views.

Answer 3: We agree.

We want to take chance to express the view of a fellow CPA who do not want to disclose his identity:

There shall be two parallel accounting standards at the outset.

- a. *Listed companies use the Hong Kong variant of IFRSs.*
- b. *The old SSAPs shall be kept its entirety.*

So the non-listed company which do not plan to be listed can use the old standards. The listed or soon-to-be listed companies can use the HKFRSs or IFRSs.

The listed companies want to join the international capital investment markets. The adoption of the HKFRSs is the ticket for those companies to enter the global investment market.

Many, if not majority, of the private companies can have little advantage by adopting the HKFRSs. Meanwhile, they have incurred too many unwanted costs, have wasted lots of times and papers, and have spent too much efforts to present notes for nobody to read.

To be continued. / ...

2008 AUG 18 PM 12:06
HKICPA



... / Continued.

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

Answer 4: We agree.

Now many SMEs are enjoying the benefits the simplicity of the SME-FRSs. It is not prudent to make more difficult for the SMEs users while the bigger private may not appropriate and use the modified SME-FRSs.

A modification to SME-FRSs can cause benefits to nobody while make the existing SME-FRSs feel uncomfortable.

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.

Answer 5: On two conditions, we agree the Institute should adopt or development a large private company financial reporting framework.

a. True and Fair View Compliance

The condition is that any entity adopt this new reporting framework will be considered as present a set of (where applicable, consolidated) financial statements with a true and fair view or presented the financial statements fairly unless the entity is a listed company itself or it is a member of a group in which a listed company is involved.

For it is true, over thousands of not-for-profits "limited" companies, aided schools, incorporated owners of buildings and housing estates can follow this supposed more friendly to comply framework. Again, it can reduce cost, time, and papers. But, in the long run, a non-for-profit accounting framework (which may be similar to fund accounting in the USA) would be welcomed.

b. Simplification

The new one must a simplified one. We can accept that there two "big" GAAPs and that the only different between them are that they have different accounting treatments but they are have same or very similar in terms of mastering the compliance or having an standing of either one of those.

Option:

We consider adopting the IFRS for SMEs with additional simplifications. We recommend the should be deleted, where applicable, set as practice notes in case some private companies have, in its special circumstance, needs to add such an accounting treatments. Otherwise, such a company have find an impossible situation.

Question 6: Please identify whether you use financial statements as a preparer, auditor and/or user and the effect on you in all of these cases of the proposed introduction of a large private company framework?

Answer 6: We are, though not frequently, the preparers and, more often, the users of the entities which do not meet the eligibility to adopt the SME-FRF&FRS and thus are forced to adopt the HKFRSs.

The effect on us is of course significant. If a new "private company" framework is introduced, we hope this new one can help reduce the time, efforts, cost, and save thousands of acres of rain-forests.

To be continued. / ...



Arthur Lam & Co. CPA
林健根會計師事務所

Room 2001, 20/F.,
Bank of Communications Bldg,
563 Nathan Road,
Kowloon, Hong Kong.

香港 九龍
彌敦道 563 號
交通銀行大廈 20 樓
2001 室

Phone 電話: (852) 3188 0358

Fax 傳真: (852) 3188 0359

www.ArthurLamCo.com

... / Continued.

We consider the overall proposals are very thoughtful and well written.

Thank for giving considerations to our comments.

Your faithfully,

For and on behalf of

Lam Kin Kun, Arthur
Arthur Lam & Co. CPA