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By fax 2865 6776 & post

Mr Steve Ong  
Deputy Director, Standard Setting Department  
Hong Kong Institute of Certified Public Accountants  
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Dear Mr Ong

**HKICPA Consultation Paper on Financial Reporting by Private Companies (May 2008)**

Thank you for your letter dated 16 June 2008 inviting our comments on the above.

We welcome the initiative of the Institute in reviewing the reporting requirements by private companies. We believe that it is critical to strike an appropriate balance between the compliance cost of financial reporting and the benefits derived by users of the financial statement of private companies. From this perspective, particularly from that of our members as major users of the financial information of private companies, we would like to share our views as set out below, following the order of the questions raised in the consultation paper.

(a) *Question 1: Do you agree that relief from applying full HKFRSs should be permitted for private companies?*

As HKFRSs, which are based on IFRSs, are written primarily for listed entities, we agree that small private companies with investment in subsidiaries should have the option to be relieved from those requirements that are specifically designed for use by existing or potential investors and financial analysts as long as the financial statements are prepared in a consolidated manner.

(b) *Question 2: Do you agree that the SME-FRF&FRS is an appropriate reporting option for small private companies and groups?*

As stated in our submission on IASB's Exposure Draft on Proposed IFRS for SMEs dated 31 August 2007, the SME-FRF & FRS, which were introduced in

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August 2005, have adapted well and have enabled banks to obtain useful information to make credit and other risk decisions. We agree that SME-FRF & FRS is an appropriate reporting option for qualifying small private companies and groups.

- (c) *Question 3: Do you agree that large private companies should be provided with an option to choose a simpler reporting framework than HKFRSs?*

Simplification in terms of disclosures by large private companies, relevant to listed companies because of their public interest, would be beneficial. It would be inappropriate, however, for large private companies to adopt SME - FRF & FRS since this would, as pointed out in paragraph 33 of the consultation paper, necessitate increasing the requirements and complexity of the SME - FRF & FRS.

- (d) *Question 4: Do you agree with the view of Council stated in paragraph 34?*

Yes.

- (e) *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 option is appropriate?*

Companies of a similar size and complexity in terms of their business operations should be subject to the same recognition and measurement requirements regardless of whether they are public or private companies. A reporting framework based on IFRSs having the same recognition and measurement requirements but with reduced disclosures (applicable to listed companies because of their public interests) would be preferred for large private companies. As the IASB's proposed IFRS for SMEs is yet to be finalised, the Institute may consider suggesting the IASB to develop a private company reporting framework on that basis.

Should you have any questions on our above comments, please feel free to contact our Senior Manager Ms Grace Law at 2521 1880.

Yours sincerely



Eva Wong  
Secretary