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31 August 2007

By post

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

Dear Ms McBride

Exposure Draft of Proposed IFRS for Small and Medium-Sized Entities

Thank you for your letter dated 29 June 2007 seeking our comments on the Exposure Draft of the Proposed International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) by the International Accounting Standards Board (IASB) for incorporation into the submission of HKICPA. Your letter also requested comments on whether the proposed IFRS for SMEs, upon its finalisation, should be adopted in Hong Kong to replace the existing Small and Medium-sized Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS) which was issued by the HKICPA in 2005 or whether the SME-FRF & SME-FRS should be retained.

We have based our comments on the comparison prepared by HKICPA which highlights the key differences between the proposed IFRS for SMEs and the SME-FRF and SME-FRS.

While we understand that the major purpose of introducing the proposed IFRS for SMEs is to improve comparability of financial statements of SMEs across jurisdictions for the benefit of external users like financial institutions making loans across borders and overseas suppliers to SMEs, our members have reservations towards adopting the proposed standards in Hong Kong. Our key considerations are:

- SMEs typically have a significantly smaller and less diverse user group with more limited financial reporting needs than their counterparts of a larger scale. Given that the proposed IFRS for SMEs is intended for SMEs which have fewer than 50 employees and which do not have public accountability, it is debateable whether the need for international convergence of accounting standards by SMEs is the same as that of the public and larger business entities.

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- The SME-FRF and SME-FRS, introduced since August 2005 after community-wide consultation and with general support, have adapted well and enabled banks to obtain useful information to make credit and other risk decisions.
- Were the IFRS for SMEs, in their current form, to be adopted in Hong Kong, this would necessarily increase the complexity in the preparation and audit of the relevant financial statements by SMEs, with the potential impact not just on the cost for SMEs but also on timeliness in making the financial information to the management of SMEs and external users including creditors and banks.

SMEs have been the backbone of our economy and are the largest employer group in Hong Kong. Given the potential significant impact of the adoption of IFRS for SMEs on our business community, it is critical that due consideration is given to finding an appropriate balance between the compliance cost of financial reporting and the benefits derived by users of the financial statement of small businesses. It will be prudent to ensure that any benefits derived from further convergence to IASB's standards in Hong Kong for the SME sector must not exceed the cost to be borne by the affected SMEs.

We trust that HKICPA has also consulted the relevant chambers and trade associations to ensure that its submission reflects the collective views of the general business community.

Please do not hesitate to contact me at 2521 1169 should you have any further questions.

Yours sincerely



Florence Hui
Secretary

c.c. Secretary for Financial Services and the Treasury Bureau

Secretary for Commerce and Economic Development Bureau