

Subject: Consultation Paper on the Qualifying Criteria for Private Companies to prepare Simplified Financial and Directors' Reports ("Consultation Paper")

To: Companies Bill Team
Financial Services and the Treasury Bureau

I have reviewed the Consultation Paper and considered the three Options proposed therein. I have considered their respective merits and demerits and set out my comments below for your consideration.

General Comments on Size Criteria

I note and agree fully to the policy that there should be an appropriate balance between compliance costs of private companies and an appropriate level of transparency of companies' business through financial reporting. It was proposed in Part 9 of the Companies Bill that two types of private companies be automatically qualified for simplified reporting provided that they meet certain criteria. I consider those criteria as appropriate and do not see any need to relax them for two main reasons:

(a) HK\$100 million seems higher than what is internationally accepted, and 50 employees also appear to be regarded internationally as being an appropriate threshold for a small entity.

(b) There is only a need to satisfy any two of the three criteria, and I believe that most private companies which under existing policy are expected to benefit from the adoption of simplified reporting should be able to satisfy such a requirement.

Option 1: Large private companies/groups should not be allowed to adopt simplified reporting (i.e. no change to the proposal in the CB)

(a) I agree that SME-FRS was developed essentially for SMEs which meet the criteria, and it is in line with the regimes in comparable jurisdictions. The extension of the application of SME-FRS to large private companies/private groups appears to deviate somewhat from international practices.

(b) I am agreeable to the proposal to allow small private companies to automatically qualify for simplified reporting, provided that there is provision that all members must be notified of the intention to adopt simplified reporting so that they have a chance to raise any objection.

(c) I am also of the view that large private companies/groups should, if they so choose, adopt HKFRS for PE because (i) as far as I am aware, it is in line with international practices, and (ii) it is accepted by banks and the Inland Revenue Department as the accounts prepared under HKFRS for PE will give a true and fair view (as opposed to a "true and correct view" in simplified accounts, which is not clearly defined).

Option 2: Allowing large private companies/groups with members' approval to adopt simplified reporting

Other than companies already within the scope of section 141D, all other private companies and groups should adopt HKFRS for PE, or adopt full HKFRS if they so choose. In my opinion HKFRS for PE has certain attributes which make it suitable for those private companies/groups:

- It is in line with international practices;
- Hence it enables private group companies in Hong Kong to consolidate their accounts with their group companies in other comparable jurisdictions;
- As mentioned above, the adoption of HKFRS for PE will give a true and fair view (as opposed to true and correct view) which is favoured by banks and the Inland Revenue Department.

As an international financial centre, I believe that it is important for Hong Kong to ensure that its accounting practices align with international best practices, and in my view that applies to the adoption of HKFRS for PE for large private companies and private groups. Hence I am not in favour of Option 2.

Option 3: Allowing large private companies/groups with members' approval to adopt simplified reporting, subject to certain size criteria being met

As explained in my comments on Option 2 above, I am not in favour of allowing large private companies/groups to adopt simplified reporting.

If any of my comments above is unclear, please let me know and I will be more than happy to clarify or elaborate.

Note:- I do not wish my name and affiliation to be disclosed.