

Differential Reporting

Differential reporting is absolutely necessary to enhance SMEs competitiveness in HK. There is too much paper work load on the SMEs and 98% of the HK economy is from SMEs, not listed companies or conglomerates. The Council of HKSA must think in terms of this silent majority and the practitioners who serve this silent majority on this subject, not large corporations and those practitioners serving them.

My views on Differential Reporting:

1. The decision should not be based on costs and benefits alone. It must also be based on the viability of the tools to attract funds for the SME to survive continuously. Even if there is a bit more costs but the financial statements are useful for capital providers, the SMEs are more than happy to bear it. If it saves some costs but rendering the financial statements totally ineffective for this purpose, the SMEs would be in a worse position than before.
2. The surrogate is accountability, not public accountability. Accountability to the shareholders, capital providers and regulating authorities only.
3. Full support should be given to the integrated approach i.e. Canadian approach. The separate approach in UK would create two classes of accountants: those who work with/for smaller companies and those with large companies. Either side is then not equipped to cross over the territory unless with significantly extra effort. This is effectively compartmentizing the accounting profession and it is a very bad idea for HK as the market is already so small.
4. Smaller entities that are NOT listed on any stock exchange should be the only ones qualified.
5. Many companies currently avoid consolidation accounts by having investments in the shareholders' name rather than the company's name or incorporated elsewhere in BVI etc. As the ability to attract funds is severely hampered by presented a small section of the picture, consolidation accounts have a reason to be there. Changing the law in my opinion would NOT get the smaller entities any tangible benefits as they were already avoided in the first place. However it would help to clarify the circumstances.
6. The proposed criteria for small entities are too broad with sales and assets at \$50 million. Practically most of the HK SMEs would be included. I suggest that assets should be lowered to \$20 million with others unchanged.
7. Exemption should take effect immediately in the year of the financial statement

- of the entity without waiting for two consecutive year of being small.
8. There should be only 2 clean cases of differential reporting: applying all or not apply any. The choice of application is permanent once it is made unless it falls outside the exemption criteria. There should NOT be anything in between i.e. partially applicable for one year and then switching over to full application in next and back etc. It only creates more confusion rendering financial statements incomparable.
 9. The question of ownership and shareholders' consent is also important. If the entity is a closely held private company with all directors are shareholders and they have unanimously consent to adopting this exemption. This is an additional criterion of exemption like the CICA's idea.
 10. The following companies should NOT be allowed to have the exemption:
 - Deposit Taking Companies and or Restricted License Banks
 - Licensed Money lenders
 - Financial Intermediaries (e.g. securities houses, sponsors)
 - Insurance companies
 - Any other companies that the public is protected by other ordinances e.g. Licensed Travel Operators

Thank you,

Eric K H Fok

FHKSA, FCCA, CMA (Canada), ACIS, MBA (Manchester)

(Membership No. F1513)