



**Banking Policy Department**

Our Ref. : B1/7C

30 October 2002

Mr Simon Riley  
Deputy Director, Accounting  
Hong Kong Society of Accountants  
4<sup>th</sup> Floor, Tower Two  
Lippo Centre  
89 Queensway  
Hong Kong

Dear Simon,

**Consultation Paper on a Proposed Framework for Differential Reporting**

I refer to the Society's invitation to comment dated 21 August 2002 on the above consultation paper.

We are, in general, supportive of the proposal for differential reporting based on a benefit-cost criterion for general purpose financial statements. Having said that, we consider that the interests of banks on which small enterprises may rely for financing should be taken into account in the framework. Otherwise, banks may lack the requisite information for proper credit assessment, or the small enterprises may be required to submit further information separately or prepare an extra set of accounts for presentation to banks to obtain finance. This may result in an increase in financial reporting costs of small enterprises and administrative costs of banks, and hence defeat the purpose of the proposed framework. Some banks to whom we have spoken have indicated that disclosures on related party transactions, the amount of assets/liabilities to be recovered/settled after 12 months, sub-classification of inventories, information relating to construction contracts and provisions, contingent liabilities and contingent assets should be retained under the framework to facilitate credit assessment by banks.

If you have any questions, please feel free to contact me or Ms Tess Leung at 2878-8279.

Yours sincerely,

Michelle Quek  
Head, Banking Policy