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Dear Sir

**Re: Response to Consultation Paper on a Proposed Framework  
for Differential Reporting**

In response to the Consultation Paper on a Proposed Framework for Differential Reporting, I have the following comments and suggestions :-

***Do you consider that there is a need for differential reporting in Hong Kong ?***

I agree that there is a need for differential reporting in Hong Kong.

- (a) However, the terminology "Differential Reporting" would not be easily understandable by the general public. A better terminology should be considered, such as "Alternate Reporting", or any other terminology that would be easier for the public to understand.
- (b) An official term in Chinese should be adopted to avoid different transactions leading to misunderstanding by the public.

**2. *Do you consider that differential reporting should be based on a benefit: cost criterion ?***

I agree that it should be based on a benefit:cost criterion. The basis of benefit:cost criterion should be based on the consideration of SME's which occupies a very high proportion in business, may be up to 80% of the business entities in Hong Kong, but not based on the benefit:cost of listed companies and regulated industries.

3. ***Do you consider that the following surrogates for the benefit:cost criterion are appropriate ?***

***(a) public accountability;***

***(b) separation of owners and governing body;***

***(c) size.***

The above surrogates are appropriate in determination of applying the new proposed reporting standards.

On (b) separation of owners and governing body, it should be that the application of determining of applying the new proposed reporting standards to be 95% of the shareholding are also governing body. This follows the present requirement for minority shareholders requesting for holding of extraordinary general meeting

On (c) the size. The size of number of employees should be 50 of the average number of staff of the year, *excluding those working on sites or temporary workers.*

4. ***Do you consider that access to differential reporting should not be restricted solely to small entities ?***

Yes, it should not be restricted solely to small entities. However, there should be criterion for entities not applicable, such as :

it should not be subsidiaries or sub-subsidiaries of listed companies, regulated industries, i.e. authorised institution (financial institutions), insurance companies, securities companies, financial futures companies, etc. as stated under paragraphs 24 and 25 of the Framework for Differential Reporting.

5. ***Small groups, that are not otherwise publicly accountable, would still prepare consolidated financial statements because of legal requirement under the Companies Ordinance. Do you agree with this ? Would you support the HKSA lobbying for a change in law ?***

Yes, I agree that HKSA lobbying for a change in law that it is OPTIONAL for small groups to prepare consolidated financial statements if 95% of the shareholders agree, except listed companies and its subsidiaries, and companies under regulated industries.

6. ***Do you consider the public accountability criteria detailed in paragraphs 24 and 25 are appropriate ?***

Yes, I agree to this proposal. It should also include subsidiaries and sub-subsidiaries.

7. ***Do you consider that an entity should be deemed to be small if it does not exceed any two of the following criteria ?***

*(a) total revenue of \$50 million;*

*(b) total assets of \$50 million;*

*(c) 50 employees.*

Basically I agree.

For (c) 50 employees, it should be on yearly average and excluding the workers at site and temporary staff.

8. ***Do you consider that differential reporting exemptions should apply immediately if an enterprise qualifies on a basis other than that covered by paragraph 34 ?***

Yes, I agree to the proposal.

9. ***Do you support that selective application of differential reporting exemptions (paragraph 37) or, alternatively, should entities that choose differential reporting be required to apply all the applicable exemptions and alternative treatments ?***

(a) If this question means selective application within a SSAP, I support that selective adoption of exemption within a SSAP can be possible. In a meeting, I was given to understand that once it is applied, all the exemptions within that SSAP should be applied, I do not agree to this proposal.

(b) It has been promoted that more voluntary disclosure of information of an entity should be made. If entities chooses to disclose more appropriate information in their financial statements, they should be encouraged to do so, rather than leaving them no alternative but to follow the strict rules that either it has to apply in full or do not use differential reporting. All the exemptions in a SSAP may not be very appropriate for certain entities, they should not be forced either to apply all exemptions or do not apply.

(c) The disclose in their general purpose financial statements of adopting the differential reporting should be simple, there should be no need to disclose in detail the criteria on which they qualify to apply differential reporting exemptions, nor which exemption under which SSAP is selected.

10. ***Do you consider that the differential reporting exemptions appearing in Appendix 1 of the Framework are appropriate ? Are there any other exemptions that should be considered for differential reporting purposes ?***

I consider the proposed exemptions are too restrictive. More exemptions should be allowed under differential reporting. In the limitation of time, I would not be able to propose any other exemptions at this moment in time. I suggest HKSA to be more open minded in accepting proposals for exemptions. This proposals can be considered in next review of SSAP.

11. *At the present time, the HKSA Council would propose that differential reporting exemptions be set out within the main body of each SSAP (the integrated approach, similar to that adopted in Canada and New Zealand). Do you have any comment on that proposal ?*

If HKSA chose the "integrated approach", there could not be any alternative, but to include in under the SSAP. However, I suggest to have a SEPARATE SECTION stating ALL the exemption that would be applied under differential reporting for easy reference.

12. *Do you have any other comments on the Framework ?*

I have the following comments:-

**(1) To revamp the structure of HKSSAP.**

The present HKSSAP follows the concept that it should be applied to all companies, but it is targeted for large entities and listed companies. However, in Hong Kong, the great majority of companies are Small and Medium Size Enterprises (SMEs), I suggest to revamp the HKSSAP to structure it that the HKSSAPs should be targeted for SMEs and non-listed companies. For listed companies and their subsidiaries, regulated industries as stated under paragraphs 24 and 25 of the Framework, for reasons of public accountability, additional requirements are to be contained in the main SSAP that these entities should follow, or entire SSAP (e.g. Earning per Share, Related Party Transactions, etc.) are to be followed by these entities with public accountability.

**(2) To consider a more appropriate term for "Differential Reporting"**

The term "Differential Reporting" would be difficult, if not misleading, to be understandable by the public. A more easily understandable term should be used. I have suggested "Alternate Reporting".

An official Chinese translation of this terminology, whether "Differential Reporting" or any other terminology decided, should be made by HKSA to prevent different translation of the term in Chinese making it more confusing or misleading to the public.

**(3) Sample Audit Reports to be issued after adoption of this reporting standard**

HKSA is to issue Sample Audit Reports as soon as this "Differential Reporting" standard is adopted.

**(4) Consultation of SMPC (Small and Medium Size Practitioners Committee)  
on future Exposure Drafts on SSAP**

I suggest that an Exposure Draft should be consulted with SMPC before releasing for comments.

**(5) Periodic review of SSAP and exemptions under Differential Reporting**

I suggest a regular review be conducted periodically on all SSAPs, say every half-yearly. In this periodic review, any suggestions received or proposals from council members or committee members in the past six-months is to be considered and to decide whether any amendments or new proposals is required.

If you require any further explanations, please let me know. Thank you for your kind attention.

Yours faithfully,



LAU Kai Hing

(Member No. F00470)