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Our ref CT/CSM/20

16 October 2009

**By fax and post**

Dear Sirs

**Consultation Paper on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong**

KPMG appreciates the opportunity to comment on the above consultation paper published by Hong Kong Exchanges and Clearing Limited in August this year. Overall, we welcome the closer collaboration of the Hong Kong and Mainland regulatory bodies and support the proposals for mutual recognition for the benefit of listed companies and their investors.

Our detailed responses to the questions you have posed are set out in the Appendix to this letter in the form requested. We trust these comments are of assistance to you as this Framework develops further. However, if you require any clarification, please do not hesitate to contact me.

Yours faithfully

Carlson Tong,  
Chairman, China

RECEIVED 16 OCT 2009

Enclosures

### Part A General Information of the Respondent

All fields are mandatory, except the fields with an asterisk (\*) if you are an individual respondent.

|                      |   |                      |
|----------------------|---|----------------------|
| Name / Company Name* | : | KPMG                 |
| Contact Person:*     | : | Carlson Fong         |
| Title*               | : | Chairman, KPMG China |
| Phone Number         | : |                      |
| E-mail Address       | : |                      |

If you do not wish to disclose the above information to the public, please check the box here:

I do not wish to disclose the information above.

## Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please make your comments by replying to questions below against proposed changes discussed in the Consultation Paper at the hyperlink: [http://www.hkex.com.hk/consul/paper/cp200908\\_e.pdf](http://www.hkex.com.hk/consul/paper/cp200908_e.pdf).

Where there is insufficient space provided for your comments, please attach additional pages.

### *Consultation Questions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong*

1. Do you agree with the proposed framework?

Yes.

No.

Please state the reasons for your views.

In principle we support the objective of allowing listed companies greater choice in appointing their auditors and we also recognise the potential cost savings from allowing an entity to use its local accounting and auditing framework when filing in another jurisdiction. These benefits arise most particularly when there is minimal duplication of effort, for example, no requirement for additional GAAP reconciliations and no requirement for the auditors to be subject to an additional regulatory supervision regime. We therefore strongly support the amendments to the Hong Kong Listing Rules to extend such benefits to Mainland companies and also the intention for a parallel arrangement to exist in respect of Hong Kong listed companies who wish to list on the Mainland.

However, as noted in the consultation paper, there are a number of aspects of the implementation of the proposed Framework, such as the continuing convergence of CASBE with IFRS and Mainland auditors' knowledge of the relevant Hong Kong requirements (for example the Listing Rules), which are key to ensuring that this Framework is not detrimental to the interests of Hong Kong investors. It is therefore important that the relevant regulatory authorities in Hong Kong, including the Exchange, continue to be closely involved in monitoring these aspects of the implementation of the Framework and give active assistance to their Mainland

counterparties to ensure that high standards of financial reporting by Hong Kong listed companies are maintained.

In respect of the reciprocal arrangements for companies registered and listed in Hong Kong which seek a further listing on the Mainland stock exchanges, we note that at present there are a number of global companies listed on the Exchange under the Main Board which are audited by international firms of accountants accepted by the Exchange on a case by case basis under Rule 19.20(2) i.e. firms of accountants which are accepted by the Exchange as having "an international name and reputation" and being "a member of a recognised body of accountants". In this regard, we would suggest that the Exchange and the Mainland authorities consider, either as part of the current proposals or separately, accepting such global companies' international auditors for the dual purpose of their Hong Kong and Mainland listings, i.e. without the need for these Hong Kong registered global companies to be subject to further levels of audit and regulatory supervision by the HKICPA solely for the purpose of their Mainland listing. Such acceptance would be consistent with the objectives of the Framework of avoiding unnecessary compliance costs, duplication of effort and delays in providing timely information to investors.

2. If the proposed framework is adopted, do you agree that the effective commencement date for the new rules should be 1 January 2010 and should apply to annual accounting periods beginning on or after 1 January 2010?

Yes.

No.

Please state the reasons for your views.

As the changes in the rules introduce options, rather than requirements, for Mainland companies to consider, we do not object to the fast effective date for the amendments, provided that this effective date does not undermine the robustness of any accreditation process for registering Mainland Auditors under the Framework and provided that

CASBE have been updated in order to maintain substantial convergence with IFRS/HKFRS in respect of the requirements applicable to 2010 reporting.

3. What are your views on the likely effect of the proposed new Rules to implement the framework (see Appendix 6 to the Consultation Paper)? Please provide qualitative and quantitative data. Please state the reasons for your views.

We are not in a position to comment on the likely effect of the proposed new Rules as far as Mainland companies and Mainland auditors are concerned. However, as indicated in our response to question 1, we recognise that there could be cost savings from allowing an entity to use its local accounting framework when filing in another jurisdiction, particularly when they can do so without reconciliation to a foreign GAAP and without their auditors incurring additional supervisory compliance costs, and we also recognise that Mainland companies may consider it advantageous for various reasons to appoint Mainland audit firms. We would therefore expect that some Mainland companies will take advantage of either or both of these options. Furthermore, provided CASBE are updated regularly to maintain convergence with IFRSs, we would agree that investors should not be unduly disadvantaged if a Mainland company chooses to report under CASBE.

4. Do you have any other comments or suggestions or alternative approaches?

Yes.

No.

Please state the reasons for your views.

**(1) Consistent interpretation of CASBE, IFRS and HKFRS**

One of the basic conditions set out in the proposed framework is that the standard-setting authorities of the two sides will establish a mechanism to ensure on-going convergence of the standards of the two sides. In our view, it is important that any such convergence mechanism considers the on-going convergence of both the letter of the standards and also their interpretation in practice. In this regard, communication channels between the various regulators and standard-setters need to be maintained, including liaison with the relevant international bodies where necessary, to enable consensus building over matters of interpretation in order to minimise diversity in practice and confusion amongst investors.

(2) Knowledge of and compliance with relevant auditing standards and local practice notes

We support the proposal to accept ISAs, HKASs and Mainland auditing standards as being in substance comparable to each other. However, in addition to HKASs, the HKICPA has issued, or is in the process of developing or updating, a number of standards or practice notes specifically designed to guide auditors in carrying out engagements in respect of listed issuers, in addition to the statutory audit role (for example, in respect of acting as reporting accountants, issuing comfort letters and carrying out other procedures associated with circulars). In our view, such requirements and guidance should be followed by all auditors of Hong Kong listed companies, rather than only those registered with the HKICPA. In this regard, the Exchange may consider giving additional recognition to these local pronouncements by specifically referring to them, where applicable, in the Listing Rules.

(3) Disclosure in the first year of changing from IFRS/HKFRS to CASBE

We would recommend that the Listing Rules include specific disclosure requirements which would apply in the first year in which an entity changes from reporting to Hong Kong investors in accordance with IFRS or HKFRS to reporting in accordance with CASBE. The information disclosed in this regard should be sufficient to enable the reader to identify any changes in recognition, measurement, presentation or disclosure of information in the financial statements which have resulted from the change, and whether or not the changes have been made retrospectively (i.e. to the comparative information).

(4) Exemption for property development activities from the notifiable transaction rules: references to "business segments" in notes 2(b) and 2(c) to Rule 14.04

Page 50 of the consultation paper sets out the proposed amendments to note 2(c) to Rule 14.04. In this regard we note the following:

IFRS 8 does not distinguish between business and geographical segments. Instead, it requires management to report segment information on the same basis as the business is analysed internally, with aggregation of that information only being permitted in limited circumstances. Given this, the references to "business segments" in the

unchanged note 2(b) and the proposed amended note 2(c) seem to be out of date. We recommend that consideration be given to deleting both notes 2(b) and 2(c). If, however, the Exchange considers it necessary to retain some reference to segment disclosure in the financial statements, we would recommend the following amendments:

- (i) note 2(b) should be updated to delete the reference to "business" segment and to acknowledge that the issuer's property development activities may be divided into more than one segment, depending on how detailed the internal reporting of the company is; and
- (ii) note 2(c) should be deleted as disclosure in the financial statements will already be covered by note 2(b).

- End -