

**Bills Committee on Companies (Amendment) Bill 2004  
Tenth meeting on 23 May 2005**

**List of follow-up actions to be taken by the Administration**

1. Impact of the Bill on the asset-securitization market in Hong Kong  
The Administration is requested to consider and provide written responses to members' views and suggestions, as follows:
  - (a) While members have no objection in principle to the Administration's proposal to amend the definition of the term "subsidiary" in the Companies Ordinance (CO) for the purposes of group accounts to make it more closely aligned with International Accounting Standard (IAS) 27, they are concerned whether the proposed amendment, in particular the scope of its application, is in line with the practices adopted by other major international financial centres. In this connection, members note that:
    - (i) New York and Japan have not adopted IAS 27;
    - (ii) all European Union members require only listed companies to prepare group accounts on the basis of IAS 27 starting from 1 January 2005;
    - (iii) while listed companies in the United Kingdom (UK) are required to comply with IAS 27 when preparing group accounts since January 2005, non-listed companies in UK are allowed to opt between adopting the existing arrangement which permits linked presentation method and IAS 27 in consolidating their group accounts;
    - (iv) as regards Australia, the Hong Kong Mortgage Corporation Limited has pointed out in its submission dated 10 January 2005 (LC Paper No. CB(1)692/04-05(01)) that it is expected that the adoption of IAS/International Financial Reporting Standard from 1 January 2005 will cause all traditional securitization vehicles to be consolidated by the sponsor. As a result the Australian Securitization Forum has recently kicked off a global project, with the endorsement of the International Accounting Standards Board, to develop a revised model for accounting for securitization transactions. There are four co-chairs of the project, including two from the American Securitization Forum and one from the European Securitization Forum; and
    - (v) At present, listed companies in Hong Kong are required by the Listing Rules to comply with IAS 27 or Hong Kong Accounting Standard (HKAS) 27.

- (b) In the light of the overseas practices mentioned in item (a) above, members are concerned whether it is justified for Hong Kong to achieve full compliance with IAS 27 at this stage ahead of other major international financial centres and the impact of such on the development of the local asset-securitization market. The Administration is requested to explore possible options to address this concern. Two suggested options are as follows:
    - (i) To offer different treatment to listed and non-listed companies in Hong Kong (e.g. to apply the Bill only to listed companies, and allow the non-listed companies to follow the existing practices or to opt between adopting the linked presentation method and IAS 27 in consolidating their group accounts);
    - (ii) To achieve full compliance with IAS 27 in two phases with the listed companies in Hong Kong covered by the first phase and the non-listed companies by the second phase.
  - (c) On the option mentioned in item (b)(i) above, the Administration is requested to advise whether the linked presentation method could give a “true and fair view” of the state of affairs or the profit or loss of the company concerned; and in this connection, to see whether there is a need to set out clearly in the CO that non-listed companies adopting the linked presentation method are required to comply with the “true and fair view” requirement; and
  - (d) On the two options mentioned in item (b)(i) and (ii) above, the Administration is requested to explore, in consultation with the Hong Kong Institute of Certified Public Accountants, possible approaches for implementing the two options, including the need for introducing amendments to the CO and/or HKASs.
2. Clause 19 – transitional provisions  
To address members’ concern about the drafting of clause 19(2), the Administration is requested to review the drafting and consider whether the suggested formulation “apply in relation to” is adequate to cover the effect of “apply to” and if so, to simplify the subclause accordingly.