



Alert

Updates on financial reporting and auditing



Issue 7 (January 2010)

Dear Members,

HKFRS for Private Entities - Statement of Intent

At its meeting on 19 January 2010 the council resolved to issue a Statement of Intent on 20 January 2010 about issuing HKFRS for Private Entities on 30 April 2010 effective immediately upon release.

Eligible entities can use HKFRS for Private Entities as an option to prepare financial statements for prior period(s) where the relevant financial statements have not been finalized and approved. Members and other stakeholders are requested to submit comments on council's intent in writing to the Institute by 31 March 2010.

The Statement of Intent (www.hkicpa.org.hk/file/media/section6_standards/standards/hkfrs-pe-info-center/stat-intent.pdf) sets out council's reasoning, the process in developing HKFRS for Private Entities to the point where it is ready for issue, the benefits the standard will provide to entities that are eligible and choose to adopt the standard and the measures the Institute will put in place to support members in understanding and applying the standard. The full HKFRS for Private Entities, including basis of conclusion, illustrative financial statements and disclosure checklist is available at www.hkicpa.org.hk/file/media/section6_standards/standards/hkfrs-pe-info-center/private-entities.pdf.

The council decision endorses the view of the financial reporting standards committee, the leadership team and management that this option has benefits and it is in the best interest of Institute members and the business community to offer it.

The introduction of HKFRS for Private Entities as a reporting option will have no effect on the scope and applicability of Hong Kong Financial Reporting Standards (HKFRSs) and Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF&FRS). Preparers can continue to use HKFRSs or SME-FRF&FRS to prepare their financial statements even though they have the option of using HKFRS for Private Entities.

The Institute has adhered to due process in developing financial reporting standards by involving members, member practices, companies, the stock exchange, regulatory authorities, academics and other interested individuals and organizations in developing the HKFRS for Private Entities and it considers additional public consultation unnecessary at this stage.

However, given the significant interest in the subject among members and other stakeholders, commenting now is an opportunity to express views, both supportive and concerned, before HKFRS for Private Entities is introduced. The proposal also shows and clearly explains the full details of the development and consultation and the views submitted earlier in the process.

HKFRS for Private Entities is based on IFRS for SMEs developed and issued as a standard by the International Accounting Standards Board. The IASB has adhered to its own due process of exposure and consultation before issuing IFRS for SMEs in July 2009.

The following amendments to IFRS for SMEs have been made by the financial reporting standards committee to ensure that HKFRS for Private Entities suits the Hong Kong business and financial reporting environment:

- Replacing the term “SMEs” in IFRS for SMEs by "Private Entities"

The FRSC noted the term “SME” is widely used in Hong Kong and associated with the locally developed SME-FRF&FRS. For clarity and differentiation, the new Hong Kong standard will be called “Hong Kong Financial Reporting Standard for Private Entities” (HKFRS for Private Entities).

- Replacing the recognition and measurement principles in section 29 Income Tax of the IFRS for SMEs with the extant version of HKAS 12 Income Taxes

Accounting for income taxes in IFRS for SMEs closely follows proposals contained in the IASB exposure draft which was intended to replace IAS 12 Income Taxes. Many respondents (including the Institute) expressed the view that exposure draft changes were not improvements but rather the introduction of complex new rules. Accordingly, IASB has expressed it is unlikely that the project will proceed in its current form. As the commenting period of the exposure draft ended on 31 July 2009, which is after the issue of the final IFRS for SMEs by the IASB on 9 July 2009, the accounting for income taxes section of the IFRS for SMEs retained the proposals contained in the exposure draft.

Given the effective rejection of the IASB exposure draft on accounting for taxes, FRSC considers it is more appropriate to replace the recognition and measurement principles contained in Section 29 of IFRS for SMEs with those contained in the extant version of HKAS 12 Income Taxes, while retaining the relevant disclosures contained in the IFRS for SMEs. This will ensure ease of use for Hong Kong CPAs.

- The section on accounting for income taxes contained in the HKFRS for Private Entities has been written to ensure no provision is required in relation to revaluation gains on investment properties to reflect the Hong Kong situation.

This amendment is incorporated to exempt recognition of deferred taxation in relation to revaluation gains of investment properties where such tax is never paid in Hong Kong to remove an anomaly currently in HKAS 12/IAS 12 Income Taxes.

Should you have any questions on this, please contact Steve Ong, director of standard setting, Hong Kong Institute of CPAs, at steve@hki CPA.org.hk.

Sincere regards,

A handwritten signature in black ink that reads "Chris Joy". The signature is written in a cursive style with a long horizontal stroke at the bottom.

Chris Joy
Executive Director
Hong Kong Institute of Certified Public Accountants