



30 November 2011

To: Members of the Hong Kong Institute of CPAs
All other interested parties

INVITATION TO COMMENT ON SME IMPLEMENTATION GROUP DRAFT QUESTION AND ANSWERS

Comments to be received by 6 January 2012

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the draft non-mandatory guidance in the form of Question and Answers (Q&As) published by the SME Implementation Group (SMEIG), which have been posted on the Institute's website at:
<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/exposure-drafts/>.

The SMEIG is responsible for assisting the IASB on matters related to the implementation of the IFRS for SMEs.

The new draft Q&As cover the following topics:

- Draft Q&A (Section 30, Issue 1) – Recycling of cumulative exchange differences on disposal of a subsidiary

Paragraph 30.13 of IFRS for SMEs requires exchange differences arising on translation of a monetary item that forms part of a reporting entity's net investment in a subsidiary to be recognised initially in other comprehensive income and to be reported as a component of equity in the consolidated financial statements. It specifically prohibits those cumulative exchange differences from being recognised in profit or loss (i.e. "recycled") on disposal of that net investment.

Paragraph 30.18 of IFRS for SMEs similarly requires exchange differences arising on translation of a foreign subsidiary into the group presentation currency for consolidation purposes to be recognised in other comprehensive income. But paragraph 30.18 is silent on recycling. Are the cumulative exchange differences that arise on translation into a presentation currency also prohibited from being recognised in profit or loss on disposal of the subsidiary?

- Draft Q&A (Section 11, Issue 1) – Fallback to IFRS 9 *Financial Instruments*

Paragraph 11.2(b) of IFRS for SMEs gives an entity the option of applying the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* to account for all of its financial instruments instead of following the recognition and measurement requirements in Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*. The IASB has been replacing IAS 39 with IFRS 9 *Financial Instruments* in phases. May an entity choose to apply the recognition and measurement provisions of IFRS 9?

Comments should be supported by specific reasoning and should be submitted in written form.



To allow your comments on the SMEIG Draft Q&As to be considered, they are requested to be received by the Institute on or before **6 January 2012**.

Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.