



4 October 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 4 November 2011

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on five 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 draft Q&As cover the following topics:

- Draft Q&A (General, Issue 1) – Application of the IFRS for SMEs for financial periods ending before the IFRS for SMEs was issued

The IASB issued the IFRS for SMEs on 9 July 2009 and did not specify a date from which the IFRS for SMEs is effective. Can the IFRS for SMEs be used for periods ending before 9 July 2009?

- Draft Q&A (General, Issue 2) – Interpretation of "undue cost or effort" and "impracticable"

Several sections of the IFRS for SMEs contain "undue cost or effort" and "impracticable" exemptions in relation to certain requirements. How should these be interpreted?

- Draft Q&A (Section 3, Issue 1) – Jurisdiction requires fallback to full IFRSs

A jurisdiction permits all entities meeting the definition of an SME to follow the IFRS for SMEs. However the jurisdiction adds a requirement that where the recognition and measurement requirements for a particular transaction, other event or condition are not specifically covered by the IFRS for SMEs but they are covered in full IFRSs, an SME must follow the recognition and measurement requirements in full IFRSs for that transaction, event or condition. May SMEs in that jurisdiction state compliance with the IFRS for SMEs?

- Draft Q&A (Section 3, Issue 2) – Departure from a principle in the IFRS for SMEs

An entity chooses to use a principle that is not allowed under the IFRS for SMEs (eg capitalizing borrowing costs or revaluing property, plant and equipment), but otherwise complies with the IFRS for SMEs in full. Can its financial statements be described in any way as complying with the IFRS for SMEs?



Such a situation arises if a subsidiary of a group applying full IFRSs applies the IFRS for SMEs in its own financial statements, but uses one or more full IFRS principles that are used by the group where the IFRS for SMEs requires a different principle. It also arises in a jurisdiction where the authorities adopt the IFRS for SMEs as their local SME standard, but modify one or more of the sections.

- Draft Q&A (Section 3, Issue 3) – Prescription of the format of financial statements by local regulation

Local law or regulation sometimes prescribes format requirements for the financial statements of SMEs. For example, it may require a particular order of items in the financial statements (eg in order of ascending or descending liquidity) or it may specify the terminology to be used (eg it may require that the statement of financial position be called the balance sheet). What is the impact of such local requirements on an entity's ability to state compliance with the IFRS for SMEs?

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 **4 November 2011**.

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.