



Our Ref.: C/FRSC

Sent electronically through email (commentletters@ifrs.org)

30 November 2011

SME Implementation Group
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

SME Implementation Group Question and Answer on

- **Draft Q&A (General, Issue 1) – Application of the IFRS for SMEs for financial periods ending before the IFRS for SMEs was issued**
- **Draft Q&A (General, Issue 2) – Interpretation of "undue cost or effort" and "impracticable"**
- **Draft Q&A (Section 3, Issue 1) – Jurisdiction requires fallback to full IFRSs**
- **Draft Q&A (Section 3, Issue 2) – Departure from a principle in the IFRS for SMEs**
- **Draft Q&A (Section 3, Issue 3) – Prescription of the format of financial statements by local regulation**

The Hong Kong Institute of Certified Public Accountants ("the Institute") is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned paper. Our responses to the questions raised in your Q&As are set out in the Appendix for your consideration.

The Institute generally agrees with the content of the draft Q&As (with the exception of the response to Issue 1 of Section 3) and consider that they are helpful for the practitioners particularly in those jurisdictions with limited IFRS experience. However, we are of a view that SME Implementation Group (SMEIG) should avoid creating an extensive amount of literature (in addition to the standard itself) in order to be able to prepare financial statements in accordance with the IFRS for SMEs. We therefore urge the SMEIG to continue to limit the issuance of Q&As to those that are genuinely causing difficulty in practice and to also seek to incorporate the responses into any future review of the full standard.

If you have any questions on our comments, please do not hesitate to contact me at ong@hkcipa.org.hk.

Yours faithfully,

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/AW/jn



Comments on SME Implementation Group Question and Answer

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?

The Institute agrees with the answer provided in the draft Q&A.

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?

The Institute welcomes this guidance as dealing with an aspect of the IFRS for SMEs which has caused some confusion. The Institute also agrees with the answer provided in the draft Q&A and considers that it provides useful guidance on how preparers and users of financial statements prepared under the IFRS for SMEs should understand the intended differences between the two concepts.

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*?

We do not agree with the response in the first sentence of paragraph 2 and the whole of paragraph 3. Our reasoning is as follows:

According to paragraph 3.3 of IFRS for SMEs, financial statements shall not be described as complying with the IFRS for SMEs, unless they comply with all the requirements of the IFRS for SMEs.

As noted in the draft response, paragraph 10.4 of the IFRS for SMEs includes the requirements related to issues not specifically addressed in the IFRS for SMEs. It states that in those cases an entity's management shall use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable. It is explained in paragraph 10.5 that the entity, in making the judgment, shall refer to and consider the applicability of, the following sources in descending order:

- (a) the requirements and guidance in IFRS for SMEs dealing with similar and related issues, and



- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses, and the pervasive principles in Section 2.

The fallback to full IFRS appears in paragraph 10.6. Although not explicitly stated in that paragraph, we had assumed that this was a continuation of the “descending order” referred to in paragraph 10.5. That is, if full IFRS is to be used as a fall back it should first of all not conflict with the requirements and guidance in the IFRS for SMEs dealing with similar and related issues and secondly it should not conflict with the pervasive principles in Section 2 of the IFRS for SMEs.

We are concerned that circumstances may arise, or already exist, where new IFRSs are issued and these new IFRSs are based on principles other than the older IFRS standards on which the IFRS for SMEs is based. According to the wording of the draft Q&A, the specific guidance in the new IFRS could then be applied even when it is inconsistent with guidance provided in the IFRS for SMEs on related issues. We therefore recommend SMEIG to reconsider the wording of the guidance, so as to advise that in the particular fact pattern presented, an entity would be able to state compliance with the IFRS for SMEs, provided that the requirements in the full IFRS which the entity has followed are not inconsistent with the requirements and guidance in the IFRS for SMEs for dealing with similar and related issues and the concepts and principles in Section 2.

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 capitalising 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.

The Institute agrees with the answer provided in the draft Q&A and considers that it provides useful guidance on how to approach this issue. However, we would recommend deleting the words “that modification does not affect the entity” (i.e. in the first sentence of paragraph 4) such that this sentence reads as follows:

“...an entity complying with the local SME standard will not be able to state compliance with the *IFRS for SMEs* unless the financial statements would not be materially different if they were prepared in conformity with the *IFRS for SMEs*.”

This change allows for the possibility that the local modification “affects the entity” but the resulting financial statements would still be acceptable under the IFRS for SMEs, for example, if the local IFRS for SMEs version prescribes the format for the financial statements and these requirements meet the minimal basic formatting requirements in the IFRS for SMEs. Similarly the local IFRS for SMEs may include some additional accounting requirements on issues not dealt with in the IFRS for SMEs, which “affect the entity” but do not conflict with paragraphs 10.4 to 10.6. Such examples could be added to the answer for additional clarity.



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*?

The Institute agrees with the answer provided in the draft Q&A.

~ End ~



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