



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Feedback Statement

Post-implementation Review of the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard

July 2019

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Introduction

In October 2018 the Financial Reporting Standards Committee ("FRSC") of the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a [Request for Information](#) ("RFI") to conduct a post-implementation review ("PIR") of the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard ("SME Standard"). The comment period closed on 18 February 2018.

The aim of the PIR was to proactively seek constituents' feedback on and assess the benefits, challenges and other effects of applying the SME Standard. This feedback statement serves as a formal record of the responses received from constituents and the key issues identified. It also sets out the FRSC's proposed next steps.

Overview of our PIR process

The PIR took place in two phases:

- (a) The first phase of the PIR was targeted outreach with the FRSC's SME Standard Advisory Panel and a few interested parties, including small and medium-sized practitioners with extensive experience working with SME clients applying the SME Standard and two users of SME financial statements. The findings from the first phase indicated that a predominately cost-based SME Standard has been working well and straightforward for entities with simple businesses and transactions to apply. However, the targeted stakeholders identified a number of areas where improvements to the SME Standard might be made and that should be considered as part of the PIR. These included:
- Adding requirements for transactions based on user needs, eg lessor, presentation currency and derivatives.
 - Clarifying or simplifying requirements, eg useful life of goodwill, transition requirements, the disclosure requirements under Section 19 *Consolidated and Company-Level Financial Statements*.
- (b) The second phase of the PIR was the RFI, which focused on areas recommended for review during phase one.

There were two principal sources of obtaining feedback on the SME Standard in phase two:

- Public consultation through the RFI; and
- Targeted outreach activities, including private meetings with a preparer and small and medium-sized practitioners of SME financial reports and discussion

with the HKICPA Small and Medium-sized Practitioners Committee Technical Issues Working Group ("TIWG").

The comment letters received and targeted outreach meetings held in relation to the RFI are outlined in the Appendix. The letters and meeting summaries are available on [HKICPA's website](#).

Next steps

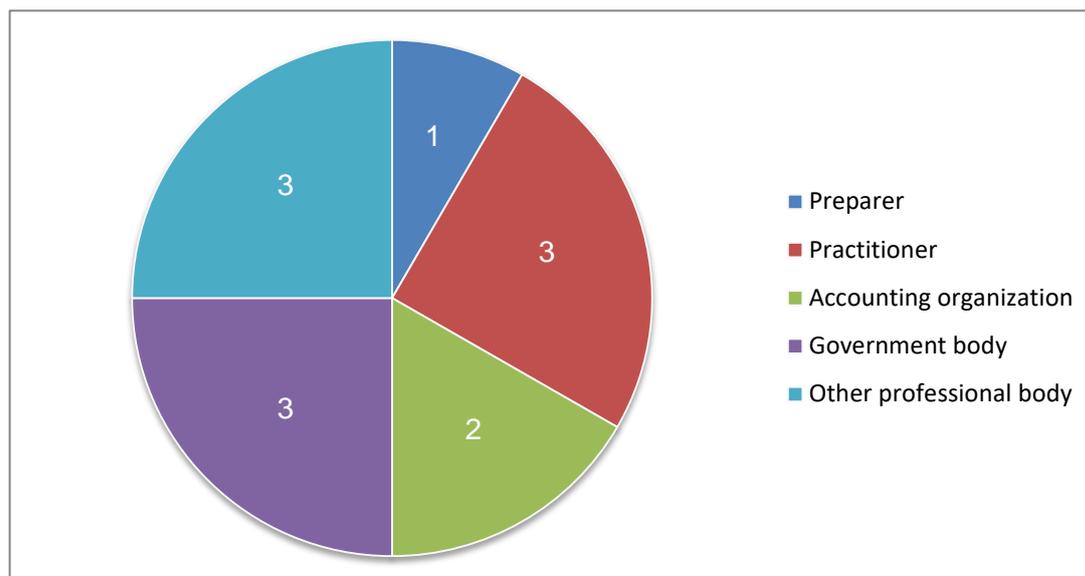
The FRSC will deliberate the feedback received on RFI and consider whether to issue an exposure draft of limited scope amendments to the SME Standard in the second half of 2019.

Feedback summary: Background and experience of the respondents

Abstract of Question 1

The Institute asked about the professional background of its respondents and their experience with the SME Standard.

The Institute received 8 written comment letters and held 4 targeted outreach and roundtable meetings in relation to the RFI in phase two (respondents' details are outlined in the Appendix). The chart below summarises the background of the respondents.



Feedback summary: Accounting requirements recommended to be added

Abstract of Question 2
<p>The SME Standard currently does not include accounting requirements for lessors. The Institute asked:</p> <ul style="list-style-type: none">● how lessors account for leases.● whether respondents support adding accounting requirements for lessors to the SME Standard and why.
Feedback
<p>Some respondents supported adding accounting requirements for lessors to the SME Standard to provide better information to users of SME financial reports and for the purpose of completeness of having the accounting treatments for both lessees and lessors in the SME Standard. This is consistent with the views of targeted stakeholders in the first phase of the PIR.</p> <p>However, some respondents considered that there is no urgent need to add requirements for lessors to the SME Standard and to do so may result in unnecessary complexity. They noted that most SME lessors only lease out investment properties under operating leases and these lessors have developed an appropriate accounting policy applying paragraph 2.1¹ of the SME Standard - the SME lessors account for operating lease rental income and adjust for the rent free period (if any) on a straight-line basis over the lease term.</p>
Abstract of Question 3
<p>The SME Standard currently does not explicitly allow or include a 'presentation currency' concept as in HKAS 21. The Institute asked:</p> <ul style="list-style-type: none">● have the respondents been impacted by this.● whether they support adding the 'presentation currency' concept to the SME Standard and why.
Feedback
<p>Most respondents have not seen a significant impact as a result of the SME Standard not explicitly including a 'presentation currency' concept. They observed that, applying paragraph 2.1 of the SME Standard, SMEs select an accounting policy based on the 'presentation currency' concept in HKAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> if they have operations that are based outside of Hong Kong and have Hong Kong dollars as their reporting currency. They supported adding the</p>

¹ Paragraph 2.1 of the SME Standard states, "Management should use its judgment in developing an accounting policy resulting in information that is relevant to the needs of users of the financial statements and is reliable in nature. Management should select and apply an entity's accounting policies so that the financial statements comply with all the requirements of the SME-FRS and are consistent with the historical cost convention."

'presentation currency' concept in HKAS 21 to the SME Standard to avoid confusion. This is consistent with the views of targeted stakeholders in the first phase of the PIR.

However, one respondent (a preparer) considered that adding the 'presentation currency' concept may result in unnecessary complexity in the SME Standard as it may not be relevant to SMEs that do not have foreign operations.

Abstract of Question 4

The SME Standard currently does not include accounting and/or disclosure requirements for derivatives. The Institute asked:

- have the respondents been impacted by this.
- whether they support adding accounting and/or disclosure requirements for derivatives to the SME Standard and why.
- are there other accounting and/or disclosure requirements that are not currently in the SME Standard with which they have experienced issues.

Feedback

No respondent commented that they have been impacted by the SME Standard not including accounting and/or disclosure requirements for derivatives.

Some respondents did not support adding fair value accounting and/or disclosure requirements for derivatives because this would be a departure from the cost-based approach in the SME Standard and would require SMEs to incur significant cost. This is not consistent with the views of targeted stakeholders in the first phase of the PIR.

Some respondents welcomed required disclosures about the terms of the derivatives contracts (for example, date of maturity, notional amount, background of transactions) to provide more useful information to users. This is consistent with the views of targeted stakeholders in the first phase of the PIR. However, some respondents considered the required disclosures may impose additional burden on most of the SMEs and SMPs while it only fulfills the needs of a particular group of users (i.e. the banks).

Respondents did not identify issues about other accounting and/or disclosure requirements.

Feedback summary: Accounting requirements recommended to be clarified/simplified

Abstract of Question 5
The Institute asked whether the respondents experienced difficulties in applying the disclosure requirements in paragraph 19.16 of the SME Standard.
Feedback
<p>Some respondents indicated that they had not experienced or seen difficulties in applying the disclosure requirements in paragraph 19.16 of the SME Standard in the company-level financial statements. Most respondents agreed that the SME Standard should clarify that the disclosure requirements in paragraphs 19.16(b), (c), (d) and (g) apply to consolidated financial statements only because the current requirements are not clear. This is consistent with the views of targeted stakeholders in the first phase of the PIR.</p> <p>Most respondents agreed that the financial information of subsidiaries excluded from consolidation can be presented on an aggregated basis because the subsidiaries are not material. This is consistent with the views of targeted stakeholders in the first phase of the PIR. One respondent (ACCA) considered this would be more concise and useful to users of the financial statements. However, some respondents considered the existing disclosure requirement is straightforward and an entity may incur additional cost to maintain workings for disclosure if it is presented on an aggregated basis.</p>
Abstract of Question 6
The Institute asked whether the respondents experienced challenges in restating comparative information of property, plant, equipment, intangible asset or any other financial statement item when an entity transitioned from a different reporting framework to the SME Standard.
Feedback
<p>Most respondents agreed that transition could be facilitated by allowing an entity to use the carrying amount of the property, plant, equipment or intangible asset under the previous reporting framework as the item's deemed cost at the date of transition. This is consistent with the views of targeted stakeholders in the first phase of the PIR.</p> <p>Some respondents mentioned that preparers experienced significant difficulties in locating the historical cost information needed for restatement purposes and found it is difficult to justify what constitutes undue cost and effort in order to use the exemption.</p>

Abstract of Question 7

The Institute asked whether the respondents experienced difficulties with or have any other comments about applying a useful life of five years for goodwill accounting.

Feedback

Some respondents agreed that transition to the *HKFRS for Private Entities* could be facilitated by changing the rebuttable presumption of the useful life of goodwill from 5 years to 10 years to align with paragraph 19.23 of *HKFRS for Private Entities*. This can limit the adjustments if the entity is transitioning from the SME Standard to the *HKFRS for Private Entities*. This is consistent with the views of targeted stakeholders in the first phase of the PIR.

However, some respondents considered that a five year amortisation period is reasonable based on the average payback period of investments in Hong Kong and it may be difficult to justify a longer period, eg given the rapid changes in technologies and high volatility of business environment. Hence, they did not consider there is a need to change the rebuttable presumption of 5 years to 10 years to align with *HKFRS for Private Entities*.

Abstract of Question 8

The institute asked whether the respondents recommended clarifying/simplifying other accounting requirements of the SME Standard.

Feedback

No respondents provided other recommendations for clarifying/simplifying other accounting requirements of the SME Standard.

Feedback summary: Other application challenges/benefits

Abstract of Questions 9 and 10

The Institute asked:

- whether preparers and practitioners experienced any other challenges or benefits when applying the SME Standard.
- whether users of SME financial reports experienced any challenges or benefits with such reports, including whether they found a predominantly cost-based measurement reporting useful.
- whether the respondents have other comments, including feedback on the HKICPA's PIR process.
- whether the respondents have any comments on the FRSC's approach to wait for a review of implementation experience of the major new HKFRS standards before considering whether to introduce the relevant new requirements into the SME Standard.

Feedback

Most respondents did not identify any other challenges or benefits when applying the SME Standard.

One respondent (HKAB) commented that details of an entity's cash flows may not be available as the preparation of the cash flow statement is optional under the SME Standard.

Some respondents considered that cost-based measurement reporting is objective and can be easily understood and interpreted.

Most respondents supported the HKICPA's PIR process. One respondent (TIWG) commented that the PIR should be undertaken no more frequently than every five years unless there is a change in regulatory requirements (eg the Companies Ordinance).

Most respondents agreed with the FRSC's approach to wait for a review of implementation experience of the major new HKFRS standards (eg HKFRS 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 16 *Leases*) before considering whether to introduce the relevant new requirements into the SME Standard. The TIWG considered that many of the new and major HKFRSs involve complicated fair value and forward-looking concepts that do not appear to be warranted in a simple cost-based accounting framework like the SME Standard.

Appendix: Summary of comment letters and outreach events

Comment letters received on RFI

<u>Organisation</u>	<u>Capacity</u>
1. Financial Services and the Treasury Bureau	Government body
2. The Law Society of Hong Kong	Professional body
3. Official Receiver's Office	Government body
4. The Hong Kong Association of Banks (HKAB)	Professional body
5. Association of Chartered Certified Accountants (ACCA)	Accounting organization
6. The Society of Chinese Accountants and Auditors (SCAA)	Accounting organization
7. Not disclosed	Government body
8. The DTC Association	Professional body

Targeted outreach meetings during phase two

<u>Participant</u>	<u>Organisation</u>	<u>Capacity</u>
1. Andy Chan	Hip Shing Hong Group	Preparer
2. Antony Lee	JTBC CPA Limited	Practitioner
3. Edmund Wong; Webster Ng	Patrick Wong C.P.A. Limited; Webster Ng & Co.	Practitioner

Roundtable meeting during phase two

<u>Participant</u>	<u>Capacity</u>
8 members of the HKICPA Small and Medium-sized Practitioners Committee Technical Issues Working Group	Practitioner