

SUMMARY OF PUBLIC ROUNDTABLE DISCUSSION (Virtual Conference)
IASB Request for Information: Comprehensive Review of the *IFRS for SMEs* Standard

Date: 18 May 2020

Time: 5:00 pm – 6:30 pm

1. Staff provided an overview of the initial development of the *IFRS for SMEs* Standard (equivalent to the *HKFRS for Private Entities* (HKFRS for PE)) and the IASB's 2020 Request for Information (RFI) to participants. Staff suggested that the discussion at this meeting should focus on the IASB's approach for this comprehensive review, and whether and how to align specific sections of the *IFRS for SMEs* Standard with the *Conceptual Framework for Financial Reporting*, IFRS 16 *Leases*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*.
2. Participants observed that most small entities prepare their financial statements either following the HKICPA's home-grown Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME Standard) or full HKFRS Standards. The application of the HKFRS for PE is limited in Hong Kong. Entities that choose to use the HKFRS for PE do so because it provides simplifications for certain accounting treatments and requires fewer disclosures as compared with the full HKFRS Standards. This resulted in lower preparation costs and audit fees. In addition, entities may choose to use the HKFRS for PE in order to prepare financial statements that achieve a "true and fair view", which is not available under the SME Standard.
3. Participants agreed that the *IFRS for SMEs* Standard should continue to be aligned with full IFRS Standards to avoid divergence between two standards. They noted that alignment should cover both principles and important definitions to ensure consistency of both standards and avoid confusion. However, if alignment also covers the precise wordings of requirements, it may be too complicated for small entities to understand and simplification cannot be achieved.
4. Participants supported the principles of (i) relevance to SMEs, (ii) simplicity; and (iii) faithful representation, and agreed they would provide an appropriate framework to assist in determining whether and how the *IFRS for SMEs* Standard should be aligned with full IFRS Standards. One participant suggested that the

IASB should consider “undue cost or effort” as another principle. For example, such a principle might be considered for the measurement of investments in unquoted equity instruments. IFRS 9 requires fair value measurement of investments in unquoted equity instruments. The participant considered that a fair value estimate of unquoted equity instruments may not provide useful information as the valuation inputs are unobservable data. In addition, use of valuation experts may be required, which would be financially burdensome for small entities.

5. Participants agreed that the IASB should only consider changes to full IFRS Standards (including an IFRS Standard, an amendment to an IFRS Standard, or an IFRIC Interpretation) for incorporation into the *IFRS for SMEs* Standard after they are effective and post-implementation review have been completed. They considered relevant practical experience obtained through the implementation of full IFRS Standards can help the implementation in *IFRS for SMEs* Standard.
6. Participants noted that Section 2 is currently aligned with the 1989 *Framework for the Preparation and Presentation of Financial Statements*. They considered Section 2 should be aligned with the *Conceptual Framework for Financial Reporting* issued in 2018 as most of the concepts have been updated. Participants also emphasised that the "undue cost or effort" concept should be retained to provide simplified accounting when the requirements result in undue cost for small entities relative to the benefits of providing the information to users of their financial statements.
7. Participants considered it is not desirable to align Section 20 *Leases* with IFRS 16 during this comprehensive review as implementation experience of IFRS 16 is limited because IFRS 16 only became effective in 2019. One participant commented that even listed companies faced significant difficulties in the implementation of IFRS 16, and application would be even more challenging for small entities. They noted that the costs and benefits of the requirements may not be balanced should the *IFRS for SMEs* Standard be aligned with IFRS 16.
8. Participants had reservations about aligning Section 23 *Revenue* with IFRS 15 because of insufficient implementation experience and so they generally preferred Alternative 3. However, out of the remaining two alternatives proposed by the IASB, the participants would prefer Alternative 2 – fully rewriting Section 23 to reflect the principles and language used in IFRS 15. They considered this

alternative can avoid divergence between the two standards. Participants did not comment on possible transitional relief under Alternatives 1 and 2.

9. Participants did not comment on supplementing the list of examples in Section 11 *Basis Financial Instruments* with a principle for classifying financial assets based on their contractual cash flow characteristics.
10. Participants considered that application of the expected credit loss model would involve significant cost and effort for small entities. They did not think that the proposed simplified approach would achieve an appropriate balance between the benefits of the expected credit loss model and the operational cost and complexity as the entity may need to involve a valuer to perform the estimation and incur additional cost for the auditor to carry out audit procedures. Overall, the participants did not support aligning the *IFRS for SMEs Standard* with the simplified approach to the impairment of financial assets in IFRS 9 as it would impose undue cost or effort to small entities.
11. Participants observed that few small entities have hedging instruments or qualify for hedge accounting. They considered the existing hedging requirements in Section 12 *Other Financial Instrument Issues* are sufficient and agreed to retain the current requirements rather than aligning Section 12 with IFRS 9.
12. Participants observed it is uncommon for small entities to possess complex financial instruments, and any small entities that do possess complex financial instrument would choose to adopt the full IFRS/HKFRS, instead of *IFRS for SMEs Standard*. However, they supported changing the reference to IAS/HKAS 39 *Financial Instruments: Recognition and Measurement* to permit an entity to apply the recognition and measurement requirements of IFRS 9 and the disclosure requirements of Sections 11 and 12 as IAS 39 will be withdrawn and will no longer apply under full IFRS Standards.
13. Participants did not have any specific comments on any topics that are not addressed in the *IFRS for SMEs Standard*. In general, they considered topics should first be addressed in full IFRS Standards before considering incorporation into the *IFRS for SMEs Standard*. They did not suggest any other matters related to the *IFRS for SMEs Standard* to bring to the IASB's attention.