



Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

22 October 2020

Mr Hans Hoogervorst
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Hans,

**IASB Request for Information
*Comprehensive Review of the IFRS for SMEs Standard***

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing and ethics for professional accountants, in Hong Kong. We are grateful for the opportunity to provide you with our views on this Request for Information (RFI).

The HKICPA appreciates the IASB's initiative to seek views on whether and how aligning the *IFRS for SMEs Standard* with full IFRS Standards could better serve users of financial statements that are prepared using the *IFRS for SMEs Standard*, without causing undue cost and effort for small and medium-sized entities (SMEs).

In Hong Kong, we observe that most SMEs prepare their financial statements either in accordance with the HKICPA's Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard or full HKFRS Standards (equivalent to full IFRS Standards). The level of application of *HKFRS for Private Entities* (equivalent to *IFRS for SMEs Standard*) is relatively limited in Hong Kong, as Hong Kong SMEs consider that its recognition and measurement requirements are too complex. Entities that do choose to use *HKFRS for Private Entities* do so because it requires fewer disclosures as compared with full HKFRS Standards, and the concept of "undue cost and effort" helps to balance the costs and benefits of its requirements.

We primarily comment on the following areas of the RFI considering the limited use of the *HKFRS for Private Entities/IFRS for SMEs Standard* in Hong Kong:

- the IASB's approach and alignment principles for the 2019 Review;
- whether and how to align specific sections of the *IFRS for SMEs Standard* with the *2018 Conceptual Framework for Financial Reporting*, and the newer, more significant standards: IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*; and
- topics that are not addressed in the *IFRS for SMEs Standard*.

Alignment approach and principles (Question G1, G2, G3)

The HKICPA generally supports the alignment approach as we consider that the *IFRS for SMEs Standard* should continue to be aligned with full IFRS Standards to avoid increasing divergence between the two sets of standards. In addition, we consider that alignment should cover both principles and important definitions in IFRS Standards to ensure consistency and avoid confusion.



However, our stakeholders have strongly emphasised the importance of considering costs and benefits. For instance, one of our stakeholders (who mainly consist of small and medium practitioners and preparers) expressed concerns that the alignment approach may impose additional cost and effort on SMEs, given that incorporating changes in full IFRS Standards into the *IFRS for SMEs* Standard could lead to additional complexity, and hence based on these concerns does not support the alignment approach.

The HKICPA considers the key to determining the most appropriate alignment approach rests with understanding the original objective of developing the *IFRS for SMEs* Standard, and assessing whether the current direction is in line with that objective. In particular, it is important the IASB keep in mind that the *IFRS for SMEs* Standard was developed to meet the needs of smaller entities and address cost-benefit considerations. In doing so, we consider it critical to not stray too far along the “continuum” towards simplified full IFRS Standards and away from purpose-built SME Standards that specifically take into consideration the needs of SMEs and their users.

The HKICPA also generally supports the IASB’s proposed alignment principles, and consider they provide an appropriate framework to assist in determining whether and how the *IFRS for SMEs* Standard should be aligned with full IFRS Standards. However, given that cost-effectiveness is a major concern of SMEs, our stakeholders consider that the concept of “undue cost or effort” should be considered as a formal alignment principle in order to give it more prominence.

With regard to timing, the HKICPA recommends that the IASB should only consider incorporation of changes to full IFRS Standards into the *IFRS for SMEs* Standard after those changes are effective, and after which the post-implementation review has been completed (i.e. Option (c) for Question G3). Our stakeholders advised that this approach would be preferable because that provides enough time for implementation issues and concerns with full IFRS Standards to be dealt with appropriately before integration into the *IFRS for SMEs* Standard.

Alignment of specific sections of the IFRS for SMEs Standard with the 2018 Conceptual Framework for Financial Reporting, and IFRSs 9, 15 and 16 (Question S1, S3, S6, S7)

The HKICPA agrees that Section 2 *Concepts and Pervasive Principles* should be aligned with the 2018 *Conceptual Framework for Financial Reporting* as most of the concepts have been updated. Furthermore, our stakeholders consider the “undue cost or effort” concept should be retained to provide additional relief for SMEs.

Whilst the HKICPA supports an alignment approach, it is not desirable to align with IFRS 15 or IFRS 16 during this comprehensive review because of their complexity and insufficient implementation experience among SMEs.

Regarding alignment with classification requirement with IFRS 9, we did not receive negative comments from our stakeholders on supplementing the list of examples in Section 11 *Basic Financial Instruments* with a principle for classifying financial assets based on their contractual cash flow characteristics.

However, in respect of aligning the *IFRS for SMEs* Standard with the simplified approach to the impairment of financial assets in IFRS 9, our stakeholders consider this is likely to impose undue cost or effort to SMEs and so does not achieve the principle of “simplicity”.

Our stakeholders also consider that the current simplified hedge accounting requirements should be retained rather than aligning with IFRS 9, given the limited application of hedge accounting by most SMEs.



In addition, our stakeholders agree with the IASB amending the *IFRS for SMEs* Standard to permit an entity to opt to apply the recognition and measurement requirements of *IFRS* 9 and the disclosure requirements of Sections 11 and 12, consistent with the alignment approach.

Topics that are not addressed in the IFRS for SMEs Standard (Question N4)

Our stakeholders consider that topics should first be addressed in full *IFRS* Standards before considering their incorporation into the *IFRS for SMEs* Standard.

Other suggestion (Question N5)

Section 16.1 of the *IFRS for SMEs* Standard states that: “... Only investment property whose fair value can be measured reliably without undue cost or effort on an ongoing basis is accounted for in accordance with this section at fair value through profit or loss. All other investment property is accounted for using the cost model in Section 17 Property, Plant and Equipment and remains within the scope of Section 17 unless a reliable measure of fair value becomes available and it is expected that fair value will be reliably measurable on an ongoing basis.”

In Hong Kong, the cost of performing the valuation for a property is often not considered significant. Hence, it would be difficult for an entity to argue undue cost will be incurred to obtain the fair value of an investment property. This eliminates the option of using the cost model in measuring the investment property indirectly. As a comparatively simpler framework than full *IFRS* Standards, one of our stakeholders recommends the IASB allow the cost model in Section 16 *Investment Property* explicitly as in IAS 40 *Investment Property*.

Work undertaken by the HKICPA in forming its views:

The HKICPA:

- (a) issued a public Invitation to Comment on the RFI on 31 January 2020;
- (b) sought input from its Small and Medium Practitioners Technical Issues Working Group comprising technical and industry experts and auditors from accounting firms;
- (c) held a roundtable discussion for preparers and practitioners on 18 May 2020; and
- (d) developed its views through its Financial Reporting Standards Committee, having reflected on its stakeholder feedback. The Committee comprises academics, preparer representatives from various industry sectors, investors, regulators, and technical and industry experts from small, medium and large accounting firms.

If you have any questions regarding the matters raised in this letter, please contact me, Anthony Wong (anthonylwwong@hkipa.org.hk), or Norman Chan (normanchan@hkipa.org.hk), Associate Directors of the Standard Setting Department.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tiernan Ketchum', with a long horizontal line extending to the right.

Tiernan Ketchum
Deputy Director, Standard Setting Department