

SUMMARY OF MEETING WITH A PREPARER

Request for Information on Post-implementation Review: Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME Standard)

Date: 8 January 2019

Time: 11:00 – 11:45

Conference call

Present:

Andy Chan, Hip Shing Hong Group

Anthony Wong, Standard Setting, HKICPA

1. Andy provided his feedback on the questions in the [Request for Information](#) on the post-implementation review (PIR) of the SME Standard (see paragraphs 2 to 13 below).

Extract of Question 1 in the Request for Information

- (a) *Please tell us about your role with respect to financial reporting (for example, preparer of financial statements, auditor, regulator, academic, accounting professional body, or user of financial statements and, if so, the type of user) and your experience in applying the SME Standard.*
- (b) *If you are a preparer, we would like to know the following:*
 - (i) *Which standard(s) are applied in preparing your company or group financial statements (for example, SME Standard, HKFRS for Private Entities or HKFRS)?*
 - (ii) *Why you are applying the respective standard(s) mentioned in question 1(b)(i)?*
 - (iii) *(If relevant) How many sets of financial statements are prepared within your group?*

2. Andy is the Head of Finance & Accounts of the Hip Shing Hong Group (the Group). He is responsible for preparing around 100 entities' financial statements (some are within the Group and some other entities are outside the Group but under common ownership): 75% of them are using the SME Standard; 20% of them are using full HKFRS; and only 5% of them are using the *HKFRS for Private Entities* to prepare their financial statements. He mentioned that all of these entities are privately owned with no external borrowings and the key stakeholders are the shareholders. The shareholders are cost conscious and consider the cost-based information provided by those entities' financial statements prepared under SME Standard is adequate, for example for tax reporting purposes.

Extract of Question 2 in the Request for Information

- (a) *(This question is for lessors) As the SME Standard currently does not include accounting requirements for lessors, how have you accounted for leases?*
- (b) *Do you support adding accounting requirements for lessors to the SME Standard? Why, or why not?*

3. Andy supported adding accounting requirements for lessors to the SME Standard and this is consistent with the views of targeted stakeholders¹ in the first phase of the PIR. Andy mentioned that the entities applied paragraph 2.1² of the SME Standard to develop an accounting policy for finance and operating leases for lessors using HKAS 17 *Leases* in the absence of specific requirements in the SME Standard.

Extract of Question 3 in the Request for Information

- (a) *Have you been impacted by the SME Standard which currently does not explicitly allow or include a 'presentation currency' concept as in HKAS 21?*
- (b) *Do you support adding the 'presentation currency' concept to the SME Standard? Why, or why not?*

4. Andy mentioned that the entities primary operated in Hong Kong and so were not impacted by the fact that the SME Standard currently does not explicitly allow or include a 'presentation currency' concept as in HKAS 21. He considered that it will complicate the SME Standard if the 'presentation currency' concept is added to it. This is not consistent with the views of targeted stakeholders in the first phase of the PIR.

Extract of Question 4 in the Request for Information

- (a) *Have you been impacted by the SME Standard which currently does not include accounting and/or disclosure requirements for derivatives?*
- (b) *Do you support adding accounting and/or disclosure requirements for derivatives to the SME Standard? Why, or why not?*
- (c) *Are there other accounting and/or disclosure requirements that are not currently in the SME Standard with which you have experienced issues? Please provide sufficient details and explains about the items you encountered issues in accounting and why accounting and/or disclosure requirements are necessary.*

5. Andy mentioned that the entities adopt full HKFRS to prepare their financial

1 The first phase of the PIR was targeted outreach with the Financial Reporting Standards Committee's SME Standard Advisory Panel and a few interested parties, including other auditors from small and medium-sized accounting firms and users of financial statements.

2 According to paragraph 2.1 of the SME Standard, "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."

statements if they have derivatives because full HKFRS can best reflect the financial impact (i.e. through changes in fair value and accompanying disclosures in the financial statements) of the derivatives. He welcomes the suggested addition of required disclosures about the terms of the derivatives contracts (for example, date of maturity, notional amount, background of transactions) because they would provide information to users at minimal cost. However, he did not support fair value accounting and disclosure requirements for derivatives because this would be a departure from the cost-based approach adopted in the SME Standard and would require SMEs to incur significant cost. In general, his view is consistent with the views of targeted stakeholders in the first phase of the PIR.

Extract of Question 5 in the Request for Information

Have you experienced difficulties in applying the disclosure requirements in paragraph 19.16 of the SME Standard? If yes, please explain in detail.

6. Andy has not experience difficulties in applying the disclosure requirements in paragraph 19.16 of the SME Standard.
7. Andy 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. In addition, Andy suggested that there should be a requirement to specify whether the financial information of excluded subsidiaries is prepared on a consolidated (i.e. intercompany transactions are eliminated) or aggregated basis.

Extract of Question 6 in the Request for Information

Have you 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? If yes, please explain in detail.

8. Andy mentioned that the entities has experienced difficulties in locating the historical cost information of property, plant, equipment and intangible assets when transitioning from a different reporting framework (measured under a revaluation model) to the SME Standard. He agreed that 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 at the date of transition as the item's deemed cost on transition. This view is consistent with the views of targeted stakeholders in the first phase of the PIR.

Extract of Question 7 in the Request for Information

Have you experienced difficulties with or have any other comments about applying a useful life of five years for goodwill accounting? If yes, please explain in detail.

9. Andy did not have any comment on this question as there is no goodwill recorded in the financial statements of the entities.

Extract of Question 8 in the Request for Information

Would you recommend clarifying/simplifying other accounting requirements of the SME Standard? Please explain the requirements you propose to be clarified/simplified and why it is necessary.

10. Andy did not provide any other recommendations for clarifying/simplifying other accounting requirements of the SME Standard.

Extract of Question 9 in the Request for Information

- (a) *Have you experienced any other challenges or benefits when applying the SME Standard? If you are a user of financial reports prepared under the SME Standard, have you experienced any challenges or benefits with such reports? Please explain in detail, for example, whether you found a predominantly cost-based measurement reporting useful?*
- (b) *Do you have other comments, including feedback on the HKICPA's PIR process?*

11. Andy has not experienced any other challenges or benefits when applying the SME Standard.
12. Andy supports the HKICPA's PIR process and agreed that the SME Standard should be reviewed every five years unless there is a change in regulatory requirements (e.g. Companies Ordinance).

Extract of Question 10 in the Request for Information

Do you have 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? Please explain why and when is an appropriate time, if you disagree with the FRSC's decision.

13. Andy agreed with 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.