

SUMMARY OF MEETING WITH A SMALL AND MEDIUM-SIZED PRACTITIONER
Request for Information on Post-implementation Review: Small and
Medium-sized Entity Financial Reporting Framework and Financial Reporting
Standard (SME Standard)

Date: 21 January 2019

Time: 9:30 – 10:15

Venue: Room 501, 5/F, Chow Sang Sang Building, 229 Nathan Road, Jordan,
Kowloon, Hong Kong

Present:

Antony Lee, JTBC CPA Limited

Anthony Wong, Standard Setting, HKICPA

1. Antony 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. Antony is the Managing Director of his own CPA firm. He has worked as an auditor for around 20 years. His clients mainly use the SME Standard or *HKFRS for Private Entities* to prepare their financial statements.

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. Antony 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. He commented that, applying paragraph 2.1² of the SME Standard, most 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.

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. Antony mentioned that his clients 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 supported adding the 'presentation currency' concept to the SME Standard to avoid confusion from the absence of requirements and this is 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. Antony mentioned that his clients do not possess derivatives contracts. He expects SMEs would be open to required disclosures about the terms of the derivatives contracts (for example, date of maturity, notional amount, background of transactions) because they would be able to provide this 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

1 The first phase of the PIR was targeted outreach with the Financial Reporting Standards Committee's SME Standard Advisory Panel and a few other 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."

would require SMEs to incur significant cost. In general, his views are 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. Antony observed his clients had not experienced any difficulties in applying the disclosure requirements in paragraph 19.16 of the SME Standard. Unlike the views of targeted stakeholders in the first phase of the PIR, he did not agree with permitting the financial information of subsidiaries excluded from consolidation to be presented on an aggregated basis when subsidiaries are not material to the group. He considered the existing disclosure requirement is straightforward and that additional cost would need to be incurred to maintain workings for disclosure if the financial information of subsidiaries is presented on an aggregated basis.
7. Antony supported clarifying that the disclosure requirements in paragraphs 19.16(b), (c), (d) and (g) might not be applicable for company-level financial statements and would apply to consolidated financial statements only. This is consistent with the views of targeted stakeholders in the first phase of the PIR.

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. Antony observed his clients had experienced significant difficulties in locating the historical cost information and restating comparative information for property, plant, equipment and intangible assets when transitioning from a different reporting framework to the SME Standard. He agreed that transition could be facilitated by allowing an entity to use the carrying amount of the property, plant, equipment, investment property 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. Antony observed his clients had not experienced difficulties in applying a useful life of five years for goodwill accounting. He agreed that transition could be facilitated by changing the rebuttable presumption of 10 years for goodwill accounting to limit the transitional adjustments if the entity is converting 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.

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. Antony 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. Antony has not experienced any other challenges or benefits when applying the SME Standard.

12. Antony 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. Antony 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.