

23 January 2019

By email: commentletters@hkicpa.org.hk and by post

Ms. Christina Ng
Standard Setting Department
Hong Kong Institute of Certified Public Accountants
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Dear Christina

The Hong Kong Association of Banks' comments on HKICPA "Request for Information on Post-implementation Review of Small and Medium-sized Entity - Financial Reporting Framework and Financial Reporting Standard (SME Standard)"

Thank you for your letter dated 13 November 2018 inviting our comments on the captioned Post-implementation Review (PIR). Our comments on the specific questions raised in the PIR are set out below for your consideration.

Question 1

- (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?*

- (a) With respect to financial reporting, member banks are both preparers and users of financial statements.
- (b) Since most member banks cannot meet the criteria for using the SME Standard, they generally apply HKFRS or IFRS in preparing the financial statements.

Chairman Standard Chartered Bank (Hong Kong) Limited
Vice Chairman Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Secretary Boey Wong

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主席 渣打銀行(香港)有限公司
副主席 中國銀行(香港)有限公司
香港上海滙豐銀行有限公司
秘書 黃凱儀

Question 2

- (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? Do you agree with the Board's preliminary views set out in paragraphs 5.48(a)–(b)? Why, or why not?*

Member banks generally do not apply the SME Standard. However, we generally support adding the accounting requirements for lessors to the SME Standard as it will help to provide more useful financial information for financial and credit analysis, and SMEs may engage in the leasing business.

Question 3

- (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?*

We do not have specific comments.

Question 4

- (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 explain about the items you encountered issues in accounting and why accounting and/or disclosure requirements are necessary.*

We support adding accounting and/or disclosure requirements for derivatives to the SME Standard because additional disclosures for derivatives, such as nature, notional amount, terms, fair value (such as those quoted derivative instruments) and background of transaction are useful for users to have better understanding about the operation of an entity and crucial for risk assessment.

Question 5

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

We do not have specific comments.

Question 6

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.

We do not have specific comments.

Question 7

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

We do not have specific comments.

Question 8

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.

We do not have specific comments.

Question 9

(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?

As users of SME's financial statements, details of an entity's cash flows may not be available since the preparation of the cash flow statement is optional under SME Standard.

Question 10

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

We agree with the FRSC's approach.



We hope you find our comments useful. Should you have any questions, please contact our Manager Ms Emily Ngan at 2526 6080 or our Officer Ms Hebe Hung at 2567 1780.

Yours sincerely

A handwritten signature in blue ink, appearing to be "Boey Wong", written in a cursive style.

Boey Wong
Secretary