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14 February 2019

Dear Madam

**Post-implementation Review of Small and Medium-sized Entity
Financial Reporting Framework and Financial Reporting Standard (SMEFRF
and FRS)**

We refer to your letter dated 13 November 2018, and on behalf of ACCA (the Association of Chartered Certified Accountants) Hong Kong, we would like to provide our views on the questions raised in your post-implementation review of the SME Standard.

Question 1: Please tell us about your role with respect to financial reporting and your experience in applying the SME Standard.

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, with approximately 18,000 members in Hong Kong who are mostly preparers and/or auditors of financial statements. ACCA Hong Kong shares the view that the SME Standard should be kept simple and straightforward as majority of small and medium-sized entities (SMEs) in Hong Kong are micro-sized entities. Our comments below regarding any additions or amendments are based on this underlying principle.

Question 2: As the SME Standard currently does not include accounting requirements for lessors, how have you accounted for leases? Do you support adding accounting requirements for lessors to the SME Standard? Why, and why not?

Majority of the lease contracts entered by entities adopting the SME Standard are operating leases. The current accounting treatments for lessors of these leases contracts would follow that stipulated in HKAS17 *Leases* which is also consistent with HKFRS 16 *Leases*. In this regard, the current accounting practice of entities adopting the SME Standard complies with HKAS 17 and HKFRS 16 *Leases*.

As such, we do not support adding accounting requirements for lessors to the SME Standard as we do not see any practical necessity for such additional treatment. However, if accounting requirements for lessors are added for the purpose of completeness of having the accounting treatments of both lessees and lessors in the SME Standard, we reiterate that the accounting treatments to be added should be kept simple and the disclosure requirements should also be kept minimal to avoid undue cost and / or effort of compliance for SMEs.

Question 3: Have you been impacted by the SME Standard which currently does not explicitly allow or include a 'presentation currency' concept as in HKAS 21? Do you support adding the 'presentation currency' concept to the SME Standard? Why, or why not?

As majority of the entities adopting the SME Standard have their presentation currencies same as their functional currencies, we have not seen significant impact caused by the current SME Standard which does not explicitly allow or include the presentation currency.

Nevertheless, we support adding the presentation currency concept to the SME Standard to provide more guidelines to preparers who choose to present their financial statements in currencies different from their functional currencies, on the condition that the accounting treatments should be kept simple and the disclosure requirements should be kept minimal. The disclosure requirements of net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity as stipulated in paragraph 52 to 57 of HKAS 21 *The Effects of Changes in Foreign Exchange Rates* should be simplified before they are incorporated into the SME Standard.

Question 4: Have you been impacted by the SME Standard which currently does not include accounting and/or disclosure requirements for derivatives? Do you support adding accounting and/or disclosure requirements for derivatives to the SME Standard? Why, or why not?

Entities adopting the SME Standard usually would not enter into complex derivative agreements. Given the accounting treatment and the valuation of derivatives are complicated and the disclosure requirements are extensive, we do not support adding accounting and / or disclosure requirements for derivatives to the SME Standard.

SMEs usually lack the expertise and resources to determine the fair value of derivatives. Unless Level 1 inputs to determine the fair value, as defined in HKFRS 13 *Fair Value Measurement*, are readily available, SME preparers will find it practically difficult to determine the fair value by Level 2 and Level 3 inputs. While the users of the SME financial statements are often their owners, bankers and / or

the Inland Revenue Department, we do not see the adding of accounting and / or disclosure requirements for derivatives to the SME Standard will create benefits to these stakeholders of the financial statements, in particular with the complicated disclosures. Instead it only creates undue cost or effort of compliance in financial reporting for SMEs.

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.

Paragraph 19.16 of the SME Standard sets out the disclosure requirements for consolidated and company-level financial statements. Our members have not experienced particular difficulties in applying them in preparing financial statements.

But for clarity purpose we support the recommendation to separate the disclosure requirements for company-level financial statements from those for consolidated level financial statements. This would avoid confusion and misunderstanding and provide clearer guidelines to practitioners when they prepare the financial statements.

We also agree that for groups with more than one subsidiary that has been excluded from consolidation in accordance with paragraph 19.2(b), they can present the summarised financial information of the excluded subsidiaries, including revenue, profit before tax, income tax expense, profit after tax, total assets and total liabilities, in aggregation. This would be more concise and useful to the users of financial statements.

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.

The rationale of introducing the SME Standard is to allow a leeway for SMEs with simple operations to prepare financial statements and report to stakeholders in cost efficient manners and to avoid undue cost and / or effect of compliance in financial reporting.

We agree that a first-time adopter of the SME Standard should be exempt from restating the comparative information that was previously measured on a different basis. SMEs could use the carrying amounts of the property, plant, equipment, intangible assets or any other financial items in previous reporting framework at the date of transition as their deemed costs. This treatment aligns with the principle of avoiding undue cost and / or effort of compliance of financial reporting for SMEs.

Question 7 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.

While we understand the rationale to change the rebuttable presumption of the useful life of goodwill from 5 years to 10 years is to align with paragraph 19.23 of HKFRS for Private Entities, we are of the view that given the rapid changes in technologies and high volatility of business environment, it appears difficult to justify that the benefit of purchased goodwill will sustain for such a long period of time. Even if the business performs well after it is acquired, its purchased goodwill diminishes and will be gradually replaced by internally generated goodwill which is not allowed to be capitalised under the current accounting standards.

Hence the current requirement of writing off goodwill over 5 years would be more prudent. In addition, the current presumption of the useful life of goodwill of 5-year is rebuttable. Entities can always rebut the presumption and amortise goodwill over longer periods when they can justify the useful lives of goodwill are longer than 5 years.

The financial statements should reflect the business value of the financial items. The SME Standard should not be amended simply to align with HKFRS for Private Entities. We recommend keeping the current rebuttable presumption that the useful life of goodwill will not exceed 5 years and goodwill should be amortised on a systematic basis over the best estimate of its useful life.

Question 9: Please explain whether you found a predominantly cost-based measurement reporting useful?

Cost-based measurement reporting is more objective and can be easily understood and interpreted. While it better serves the purpose of SME's financial statements of which the business is generally not complicated and the size of business is relatively small, it also serves the users of the financial statements from various background, including those outside the profession who may lack the knowledge of understanding, appreciating and / or challenging the assumptions and judgments involved in fair value estimations and measurements. This is in line with the rationale that the SME Standard should be straightforward for entities with simple business or transactions to apply when it was firstly implemented.

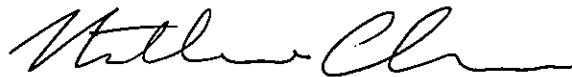
Question 10: Do you have comments on the FRSC's approach to wait for a review of implementation experiences of the major new HKFRS standards before considering whether to introduce the relevant new requirements into the SME Standard?

We agree with the FRSC's approach to wait for a review of implementation experiences of the major new HKFRS standards before considering whether to

introduce the relevant new requirements into the SME Standard. This not only allows FRSC to observe and analyse the implementation experience of IFRS/HKFRS adopters, better evaluate the impact of the major new HKFRS standards to business before introduce them to SME Standard, but also allows it to incorporate improvements, grant exemptions or simplification where appropriate and necessary, when they introduce any relevant requirements into the SME Standard.

Should you wish to further discuss the issue in more details, please do not hesitate to contact ACCA Hong Kong at 2973 1108.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Natalie Chan', written in a cursive style.

Natalie Chan
Chairman
ACCA Hong Kong