CPA
Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically via email (commentletters@ifrs.org)

30 January 2012

SME Implementation Group
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

SME Implementation Group Draft Question and Answers on
IFRS for SMEs (Section 30, Issue 1) – Recycling of cumulative exchange differences on disposal of a subsidiary
IFRS for SMEs (Section 11, Issue 1) – Fallback to IFRS 9 *Financial Instruments*

The Hong Kong Institute of Certified Public Accountants ("the Institute") is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned paper. Our responses to the questions raised in your Q&As are set out in the Appendix for your consideration.

The Institute generally agrees with the content of the draft Q&As and consider that they are helpful for the practitioners. In addition to the issuance of the Q&As, we consider the issues should be further addressed when the post-implementation review on the standard is performed.

If you have any questions on our comments, please do not hesitate to contact me at ong@hkicpa.org.hk.

Yours faithfully,

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/AW/jn

Comments on IFRS for SMEs (Section 30, Issue 1) – Recycling of cumulative exchange differences on disposal of a subsidiary

Paragraph 30.13 requires exchange differences arising on translation of a monetary item that forms part of a reporting entity's net investment in a subsidiary to be recognised initially in other comprehensive income and to be reported as a component of equity in the consolidated financial statements. It specifically prohibits those cumulative exchange differences from being recognised in profit or loss (ie 'recycled') on disposal of that net investment.

Paragraph 30.18 similarly requires exchange differences arising on translation of a foreign subsidiary into the group presentation currency for consolidation purposes to be recognised in other comprehensive income. But paragraph 30.18 is silent on recycling. Are the cumulative exchange differences that arise on translation into a presentation currency also prohibited from being recognised in profit or loss on disposal of the subsidiary?

We agree with the answer provided in the draft Q&A that cumulative exchange differences that arise on translation into a presentation currency are prohibited from being recognised in profit or loss on disposal of the subsidiary.

Paragraph 30.18 of the IFRS for SMEs does not specify whether cumulative exchange differences that arise on translation into the group presentation currency should or should not be recognised in profit or loss on disposal of the subsidiary. We agree with the draft Q&A that paragraph 9.18 contains guidance which addresses this issue. Paragraph 9.18 states "The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, excluding the cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in equity in accordance with Section 30 *Foreign Currency Translation*, is recognised in the consolidated statement of comprehensive income (or the income statement, if presented) as the gain or loss on the disposal of the subsidiary".

Whilst we agree with the draft Q&A that the word "excluding" should be interpreted as "not taking the exchange difference into account in measuring the gain or loss on disposal", we believe that the wording in paragraph 9.18 is not sufficiently clear. The paragraph could be interpreted as saying that the cumulative amount of any exchange differences shall be deducted from the difference between the proceeds from the disposal of the subsidiary and its carrying amount, and be recognised in the consolidated statement of comprehensive income. We recommend to clarify the standard by amending the third sentence of paragraph 9.18 as follows:

"The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal~~,~~ is recognised in the consolidated statement of comprehensive income (or the income statement, if presented) as the gain or loss on the disposal of the subsidiary. The cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in equity in accordance with Section 30 Foreign Currency Translation should not be recognised in profit or loss (ie "recycled") on disposal of that subsidiary."

We believe the above recommendation is consistent with Paragraph BC123 of the Basis of Conclusion of IFRS for SMEs on the related issue.

<u>Comments on IFRS for SMEs (Section 11, Issue 1) – Fallback to IFRS 9 *Financial Instruments*</u>

Paragraph 11.2(b) gives an entity the option of applying the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* to account for all of its financial instruments instead of following the recognition and measurement requirements in Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*. The IASB has been replacing IAS 39 with IFRS 9 *Financial Instruments* in phases. May an entity choose to apply the recognition and measurement provisions of IFRS 9?

We agree with the answer provided in the draft Q&A that IFRS for SMEs entities are not permitted to apply recognition and measurement provisions of IFRS 9 to account for all of its financial instruments. We agree with BC1 that allowing use of IFRS 9 by SMEs would require a change to the IFRS for SMEs.

We would expect that the issue on whether it would be beneficial to allow entities to apply IFRS 9 instead of IAS 39 should be considered in relation to the post-implementation review of the IFRS for SMEs.

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