Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

3 March 2014

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

IASB Exposure Draft of Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)

The Hong Kong Institute of Certified Public Accountants (HKICPA) 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 this Exposure Draft (ED). Our responses to the questions raised in your Invitation to Comment are set out in the Appendix for your consideration.

In 2010, the HKICPA adopted IFRS for SMEs in the form of HKFRS for Private Entities, which is adapted from IFRS for SMEs with tax accounting requirements modified to conform to the requirements of IAS 12 Income Taxes, as a reporting option to relieve SMEs from applying full HKFRS which is fully converged with IFRSs.

A majority of business entities in our jurisdiction do not have public accountability. Many of those entities are owner-managed and are not particularly sizable in nature. Despite the fact that the accounting requirements in IFRS for SMEs are already simplified compared to those in full IFRS, our SME constituents generally consider that the requirements in IFRS for SMEs go unnecessarily beyond what is considered to be the typical information needs of stakeholders and are still overly sophisticated for small entities. This may undermine the relevance of IFRS for SMEs both locally and globally. The IASB may wish to reconsider whether the stated scope and accounting requirements of IFRS for SMEs are consistent with the objective of the standard.

If you have any questions regarding the matters raised in our submission, please contact Ambrose Wong, our Associate Director of Standard Setting at ambrose@hkicpa.org.hk.

Yours faithfully,

Simon Riley
Acting Director, Standard Setting

SR/AW

Encl.

APPENDIX

Hong Kong Institute of CPAs

Comment on IASB Exposure Draft of Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)

Question 1—Definition of 'fiduciary capacity'

The IASB has received feedback that the meaning of 'fiduciary capacity' in the definition of 'public accountability' (see paragraph 1.3(b) of the *IFRS for SMEs*) is unclear as it is a term with different implications across jurisdictions. However, respondents generally did not suggest alternative ways of describing public accountability or indicate what guidance would help to clarify the meaning of 'fiduciary capacity'. Based on the outreach activities to date, the IASB has determined that the use of this term does not appear to create significant uncertainty or diversity in practice.

(a) Are you aware of circumstances where the use of the term 'fiduciary capacity' has created uncertainty or diversity in practice? If so, please provide details.

(b) Does the term 'fiduciary capacity' need to be clarified or replaced? Why or why not? If you think it needs to be clarified or replaced, what changes do you propose and why?

We are not aware of circumstances in our jurisdiction where the use of the term 'fiduciary capacity' has created significant uncertainty or diversity in practice.

Question 2—Accounting for income tax

The proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax (see amendment number 44 in the list of proposed amendments at the beginning of this Exposure Draft) is the most significant change being proposed to the *IFRS for SMEs*.

When the *IFRS for SMEs* was issued in 2009, Section 29 was based on the IASB's Exposure Draft *Income Tax* (the '2009 ED'), which was issued in March 2009. However, the 2009 ED was never finalised by the IASB. Consequently, the IASB has concluded that it is better to base Section 29 on IAS 12. The IASB proposes to align the recognition and measurement principles in Section 29 with IAS 12 (see paragraphs BC55–BC60) whilst retaining some of the presentation and disclosure simplifications from the original version of Section 29.

The IASB continues to support its reasoning for not permitting the 'taxes payable' approach as set out in paragraph BC145 of the *IFRS for SMEs* that was issued in 2009. However, while the IASB believes that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, it would like feedback on whether Section 29 (revised) can currently be applied (operationalised) by SMEs, or whether further simplifications or guidance should be considered.

A 'clean' version of Section 29 (revised) with the proposed changes to Section 29 already incorporated is set out in the appendix at the end of this Exposure Draft.

Are the proposed changes to Section 29 appropriate for SMEs and users of their financial statements? If not, what modifications, for example further simplifications or additional guidance, do you propose and why?

We consider that the recognition and measurement principles in IAS 12 provides a better basis for tax accounting by SMEs rather than the proposed principles in the 2009 ED, which was never finalised.

Having said that, we consider the IASB should consider carefully again the cost and benefit for recognising deferred income taxes from the perspective of SMEs. Despite there being no size criteria for a company to be eligible to use IFRS for SMEs, companies which are relatively smaller in size may consider that the costs of recognising deferred income taxes could easily outweigh the benefits. In that case, the tax payable method may be more suitable for their circumstances.

Question 3—Other proposed amendments to the *IFRS for SMEs*

The IASB proposes to make a number of other amendments to the *IFRS for SMEs*. The proposed amendments are listed and numbered 1–43 and 45–57 in the list of proposed amendments. Most of those amendments are minor and/or clarify existing requirements.

(a) Are there any amendments that you do not agree with or have comments on?

(b) Do any of the amendments require additional guidance or disclosure requirements to be added to the *IFRS for SMEs*? If so, which ones and what are your suggestions?

If you disagree with an amendment please state any alternatives you propose and give your reasoning.

Incorporation of SMEIG Q&A into IFRS for SMEs

We welcome the incorporation into the IFRS for SMEs of the three items of guidance as mentioned in BC69, which were previously issued as non-mandatory Q&A.

We continue to urge the IASB to continue to limit the issuance of Q&A to those issues that are genuinely causing difficulty in practice and to seek to incorporate the responses into any future review of the standard itself.

We noted from BC 67 that one of the key responsibilities of the SMEIG has been to consider implementation questions raised by users of the IFRS for SMEs and to develop non-mandatory guidance in the form of Q&A. We consider the IFRS Interpretation Committee should also be involved in the development of guidance.

Undue cost or effort exemption

As mentioned above, we welcome the specific guidance in paragraphs 2.14A-2.14C on how to interpret and apply the "undue cost or effort" exemption that is used in several sections of the IFRS for SMEs.

We consider the IASB should consider incorporating a requirement for entities to disclose the fact when it is not applying a requirement of the standard on the basis of "undue cost or effort". We consider such proposed disclosure would enhance comparability and understandability of financial statements.

Additional guidance on uniform reporting date

We welcome the incorporation of additional guidance in paragraph 9.16 on the preparation of consolidated financial statements if group entities have different reporting dates.

We however would recommend IASB to consider incorporating in the standard a similar requirement as in paragraph B93 of IFRS 10 that "in any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period." We consider such a requirement would enhance the relevance of financial statements for decision making and does not impose significant difficulties for SME preparers.

Refinement on amendments on single-statement presentation of total comprehensive income

We noted that the Exposure Draft incorporates in paragraph 5.5(g) main changes under IAS 1 (2011 amendment) *Presentation of Items of Other Comprehensive Income*, which requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassificable to profit or loss. Given that SME financial statement items are typically not reclassificable under IFRS for SMEs, we therefore recommend the IASB to not include such a change in the final standard.

In addition, we have the following refinement recommendations to the proposed amendment to paragraph 5.5(e):

"(e) a single amount comprising the total of:

(i) the post-tax profit or loss of a discontinued operation,~~ and~~

(ii) the post-tax gain or loss attributable to the impairment of the assets *upon and subsequent to being classified as a* ~~in the~~ discontinued operation (see Section 27 *Impairment of Assets*) or to the disposal of the net assets constituting the discontinued operation*, and*

(iii) the gain or loss on disposal of discontinued operation."

Guidance on combined financial statements

We noted that the Exposure Draft incorporates in paragraph 9.28 a proposed amendment to the definition of "combined financial statements" to refer to entities under common control, rather than only those under common control by a single investor. While we welcome the proposed amendment, we recommend the IASB to consider incorporate additional guidance as to definitions of common control (for example: to include simplified wording from relevant paragraphs in IFRS 3 *Business Combinations*) to help users of standard better understand the accounting requirements.

Guidance on fair value determination

We noted that the Exposure Draft clarifies in paragraph 11.27 that the best evidence of fair value may be a price in a binding sale agreement or a quoted price for an identical asset in an active market. We consider the quoted price for an identical asset in an active market is better evidence of fair value than a price in a binding sale agreement and therefore recommend the IASB to reconsider the paragraph drafting. The IASB may also wish to revise the entire paragraph 27.14 for consistency.

Clarification to accounting on acquisition of intangible asset as part of a business combination

We propose the following editorial change to paragraph 18.8 to enhance clarity:

> "18.8 An intangible asset acquired in a business combination shall be recognised <u>if it is separable from goodwill</u> unless its fair value cannot be measured reliably without undue cost or effort at the acquisition date."

Additional guidance on share-based payment transactions settled by another group entity on behalf of the entity receiving the goods or services

We noted that the Exposure Draft clarifies in paragraph 26.1A that share-based payment transactions involving equity instruments of other group entities are within the scope of Section 26. In case the scope of Section 26 is to be expanded as proposed, we would recommend the IASB to consider including in the standard other related guidance based on IFRS 2 *Share-based Payment* for reference by financial statements preparers.

Question 4—Additional issues

In June 2012 the IASB issued a Request for Information (RFI) seeking public comment on whether there is a need to make any amendments to the *IFRS for SMEs* (see paragraphs BC2–BC15). The RFI noted a number of specific issues that had been previously identified and asked respondents whether the issues warranted changes to the *IFRS for SMEs*. Additionally, the RFI asked respondents to identify any additional issues that needed to be addressed during the review process. Any issues so identified were discussed by the IASB during its deliberations.

Do respondents have any further issues that are not addressed by the 57 amendments in the list of proposed amendments that they think the IASB should consider during this comprehensive review of the *IFRS for SMEs*? Please state these issues, if any, and give your reasoning.

Additional options for the accounting of property, plant and equipment (PPE), capitalisation of development costs and borrowing costs on qualifying assets

We continue to consider the IFRS for SMEs should be revised to permit an entity to choose, for each major class of property, plant and equipment (PPE), whether to apply the cost-depreciation-impairment model or the revaluation model. We note from the basis of conclusions in the Exposure Draft that most respondents to the RFI supported a revaluation option.

We noted from BC41 that the IASB is of a view that typical users of IFRS for SMEs generally priortise simplified accounting and do not require complex accounting policy options. We however noted that the SME entities may be willing to opt for a more sophisticated accounting option in case the costs are outweighed by the increased benefits. The revaluation measurement of PPE has been widely used and is relatively simple to apply and understand. We therefore consider that SMEs should not be deprived from such an accounting option.

Consistent with our reasoning above, we consider the IASB should also consider providing an accounting option on the capitalisation of development costs and borrowing costs on qualifying assets, on a similar basis to the respective IAS 38 *Intangible Assets* and IAS 23 (Revised) *Borrowing Costs*.

Additional "undue cost or effort" exemption for certain items

We consider the IASB should consider incorporating an "undue cost or effort" exemption for the following items to further simplify the accounting requirements for the ease of SMEs:

- Paragraph 9.3A: Subsidiary acquired with the intention of selling or disposing of it within one year shall be measured at fair value if the fair value of the shares can be measured reliably *without undue cost or effort*. Otherwise, such subsidiary shall be measured at cost less impairment.

- Paragraph 19.15(d): Contingent liability shall be separately recognised by acquirer at the acquisition date if its fair value can be measured reliably *without undue cost or effort*.

- Paragraph 22.18: Liability arising from entity's distribution of asset other than cash is to be measured at fair value of the assets to be distributed if such can be measured reliably *without undue cost or effort*.

- Paragraph 26.1: Overriding exemption on application of Section 26 *Share Based Payment* when fair value of equity instrument of cash-settled share-based payment transaction cannot be measured reliably *without undue cost or effort*.

Question 5—Transition provisions

The IASB does not expect retrospective application of any of the proposed amendments to be significantly burdensome for SMEs and has therefore proposed that the amendments to the *IFRS for SMEs* in Sections 2–34 are applied retrospectively.

Do you agree with the proposed transition provisions for the amendments to the *IFRS for SMEs*? Why or why not? If not, what alternative do you propose?

We agree with the proposed transition provisions.

Question 6—Effective date

The IASB does not think that any of the proposed amendments to the *IFRS for SMEs* will result in significant changes in practice for SMEs or have a significant impact on their financial statements. It has therefore proposed that the effective date of the amendments to the *IFRS for SMEs* should be one year after the final amendments are issued. The IASB also proposes that early adoption of the amendments should be permitted.

Do you agree with the proposed effective date and the proposal to permit early adoption? Why or why not? If not, what alternative do you propose?

We agree with the proposed effective date and the proposal to permit early adoption.

Question 7—Future reviews of the *IFRS for SMEs*

When the *IFRS for SMEs* was issued in 2009 the IASB stated that after the initial comprehensive review, the IASB expects to propose amendments to the *IFRS for SMEs* by publishing an omnibus Exposure Draft approximately once every three years. The IASB further stated that it intended this three-year cycle to be a tentative plan, not a firm commitment. It also noted that, on occasion, it may identify a matter for which an amendment to the *IFRS for SMEs* may need to be considered earlier than in the normal three-year cycle; for example to address an urgent issue.

During the comprehensive review, the IASB has received feedback that amendments to the *IFRS for SMEs* once every three years (three-year cycle) may be too frequent and that a five-year cycle, with the ability for an urgent issue to be addressed earlier, may be more appropriate.

Do you agree with the current tentative three-year cycle for maintaining the *IFRS for SMEs*, with the possibility for urgent issues to be addressed more frequently? Why or why not? If not, how should this process be modified?

We consider a five-year cycle policy may be preferable since SMEs have a strong demand for stability in the IFRS for SMEs. However, there should still be some flexibility in the due process so that specific issues can be considered earlier if they respond to an urgent need or solve significant divergence or unforeseen circumstances in practice. However, the IASB should be mindful not to over-use such flexibility where changes to the standard could otherwise be incorporated into the IFRS for SMEs as part of the five-year review.

We also support the IASB's decision to consider whether to incorporate new full IFRS requirements to IFRS for SMEs only after those standards are published (i.e. not at the Exposure Draft stage). This is mainly to ensure a stable financial reporting platform for SMEs where new requirements are only incorporated after due deliberation and experience.

Question 8—Any other comments

Do you have any other comments on the proposals?

We do not have any other comment on the proposals.

~ End ~