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# 香港華人會計師公會 The Society of Chinese Accountants & Auditors

(在香港註冊成立之有限公司)

(Incorporated in Hong Kong as a company limited by guarantee)

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213 Queen's Road East  
Wanchai  
Hong Kong

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 The Society of Chinese Accountants and Auditors ("SCAA"), we would like to provide our views on the questions raised in your post-implementation review of the SME Standard based on the result of our members forum and comments received from our members: -

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

SCAA is an incorporated body of professional accountants in Hong Kong established since 1913. There were less than a hundred members 50 years ago and about half thousand members 10 years ago. Nowadays, SCAA has over 1,000 ordinary members who are practising accountants and representing a significant number of practising firms of accountants, most of which are small and medium sized, in Hong Kong.

*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?*

In the view of alignment on the slient coverage in SME Standard, SCAA has no objection to add accounting requirements for lessors to the SME Standard. However,

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certain SCAA members raised their concerns that SME Standard should be kept in a simple and easily understand manner and therefore no capitalization of operating lease shall be adopted. In addition, voluntarily disclosure may be an alternative way for providing lessor information in order to minimize the undue cost or effort to SMPs during preparation of such financial information.

*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?*

Most SCAA members have no significant impact by the presentation currency while some comments suggested a non-compulsory treatment for adopting another currency as reporting so as to allow convenient preparation of consolidation financial statements or head-office vs. branch situation.

*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?*

As SCAA members practice as SMPs and adopt SME Standards in majority on their clients during financial statements preparation, they raised strong objection and expressed significant concerns on the necessity and relevancy of applying fair value accounting and/or disclosure requirements for derivatives. Most SMPs expressed that the huge burden and workload will be imposed to them and/or their clients, in particular on the relatively small scale size in general. Furthermore, the financial statements so prepared under SME Standard are mainly focus for tax reporting, bankers or shareholders of the client, of which additional information required under fair value accounting for derivatives give little or no value to their stakeholders but only caused confusion to 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.*

No experiencing difficulties in applying the disclosure requirement.





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*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.*

SCAA members experienced certain challenges in restating comparative information of those assets in question when transitioning from a different reporting framework to SME Standard, given that practical restrictions existed in some circumstance. With this in mind, SCAA suggests to allow the use of carrying amount of those assets in question at their transition date as deemed cost of transition with proper disclosure made to avoid further undue cost involved.

*Question 7 Have you experienced difficulties with or have any other comments about applying a useful life of ten years for goodwill accounting? If yes, please explain in detail.*

SCAA agrees to apply a useful life of ten years for goodwill accounting, which align with paragraph 19.23 of the HKFRS for Private Entities.

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

SME Standard is a good tool on cost model and easy understands for most financial statements users, either practitioners or SMEs. In fact, SME Standard balanced for the right of information provided/disclosed to the users and the effort contributed by the preparers.

Whilst PIR is a good exercise but SCAA believes that the aim of development should be in the direction of making financial reporting in a simpler way but not complex manner.

*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?*

SCAA considered no further new/revised HKFRS requirements other than the above should be incorporated in SME Standard in current situation as (i) different objectives for HKFRS vs. SME Standard; (ii) different needs for the end users for HKFRS vs.



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SME Standard; and (iii) different momentum on the stakeholders of the financial statements users amongst two standards.

In this regard, SCAA agrees that FRSC's approach to wait for review of PIR before considering any changes on the new requirements into the SME Standard.

Should you wish to further discuss the issue in more details, please do not hesitate to contact SCAA at 2869 6680.

Yours faithfully,

YU Kwong Man, Tanny  
President

The Society of Chinese Accountants & Auditors