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

Our Ref.: C/FRSC

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

24 November 2009

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

Dear Sirs,

IASB Exposure Draft on *Improvements to IFRSs*

The Hong Kong Institute of Certified Public Accountants 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 Exposure Draft. Our responses to the questions raised in your Exposure Draft are set out in the Appendix for your consideration.

We generally agree that the proposed amendments are appropriate matters to be addressed in the Annual Improvements Project except for the following three matters on which we have concerns:

(a) *IAS 8 Changes in Accounting Policies, Accounting Estimates and Errors* – Update for conceptual framework terminology changes

The proposed IAS 8 amendment seems to pre-empt changes that may be made to the conceptual Framework. We suggest these changes be made as consequential changes as and when the Framework is amended.

(b) IAS 27 *Consolidated and Separate Financial Statements* – Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

We consider the amendment is inconsistent with the new IFRS 9 *Financial Instruments* and hence does not appear to be an amendment that should be made at this time. We understand that under IFRS 9, all equity investments are carried at fair value and there will be no concept of impairment of the equity investments as there will be no recycling from other comprehensive income to profit or loss. Furthermore, we do not support the amendment requiring that, should IAS 39 be used to measure these interests, they must be designated as at fair value through profit or loss. In many cases these investments would not meet the criteria in IAS 39 for such designation under the fair value option, nor are they held for trading, and hence any requirement to classify in this manner should be dependent upon the adoption of IFRS 9 (which will use fair value through profit or loss as the default for equity investments).

37th Floor, Wu Chung House,
213 Queen's Road East, Wanchai, Hong Kong
香港灣仔皇后大道東213號胡忠大廈37樓
Tel電話: (852) 2287 7228
Fax傳真: (852) 2865 6776
(852) 2865 6603
Website網址: www.hkicpa.org.hk
Email電郵: hkicpa@hkicpa.org.hk

(c) IAS 40 *Investment Property* – Change from fair value model to cost model

We do not support the proposal of removing the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale, which would have a significant impact on property developers that both develop properties for sale and for rental purposes, and hence should not be the type of issue dealt with in an annual improvement project. In addition, this treatment creates an inconsistency in the accounting for property acquired as investment property, but now being developed with a view to sale, and property acquired with a view to sale. It is common in Hong Kong and China for property developers to acquire substantial plots of land and form detailed plans at a later stage of their development. IAS 40.8(b) requires that such 'land banks' are classified as investment property. The proposed prohibition against transferring land to inventories when being developed for sale would result in property developers no longer presenting any revenue from such development activities, as the sale would be accounted for as a disposal of an asset held for sale. We do not believe that this presentation faithfully reflects these development/sale transactions.

We especially support the Board's proposal to broaden an existing exemption to a first-time adopter for an event-driven revaluation that occurred during its first set of IFRS financial statements and permit its retrospective application. We believe that the proposed amendments can address practical issues being faced by jurisdictions such as Mainland China where revaluation of non-monetary assets and liabilities is required for state-owned entities that are being privatized or undergoing initial public offering. In addition, the revaluation deemed cost is considered to be more relevant to users than original cost as many assets may have little or no cost under previous GAAP owing to the fact that, typically, they were originally government property granted free of charge to the reporting entity. We have suggested certain drafting amendments to improve this proposal and more details can be found in the Appendix.

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

Yours faithfully,

Steve Ong

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/WC/ac

Hong Kong Institute of CPAs

General questions (applicable to all proposed amendments)

Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We set out our responses to those proposed amendments which we have particular concerns or suggestions as follows.

(a) **IAS 8 *Changes in Accounting Policies, Accounting Estimates and Errors* – Update for conceptual framework terminology changes**

We consider the IAS 8 amendment seems to pre-empt changes that may be made to the conceptual Framework. We are unsure as to why these changes are being proposed before finalization of the applicable chapters of the revised conceptual framework. We suggest these changes be made as consequential changes as and when the Framework is amended.

(b) **IAS 27 *Consolidated and Separate Financial Statements* – Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor**

- *Proposed amendment to paragraph 38(b) of IAS 27*

  We do not support this proposed amendment. We do not think that the existing words, "in accordance with IAS 39", are synonymous with the proposed replacement wording "at fair value through profit or loss". In our view, this proposed change would remove the option for entities to recognise a gain or loss in other comprehensive income for investments in subsidiaries, jointly controlled entities and associates.

- *Proposed addition of paragraph 38D to IAS 27*

  We do not agree with the proposed amendment as we consider it is inconsistent with the new IFRS 9 *Financial Instruments*. We understand that under IFRS 9, all equity investments are carried at fair value and there will be no concept of impairment of the equity investments as there will be no recycling from other comprehensive income to profit or loss. We are concerned that the proposed amendment may introduce a special measurement category for some equity instruments.

(c) **IFRS 1 *First-time Adoption of IFRSs – Revaluation as deemed cost***

We strongly support the objective of the amendment to allow a first-time adopter to use an event-driven fair value measurement as deemed cost for all of its assets when such revaluation occurred after the date of transition to IFRSs but within its first IFRS financial statements. However, we have some concerns on the drafting of the amendment and suggest it to be improved as follows (new text is underlined and deleted text is struck through):

“D8. A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering. If the measurement date is before the end of the first IFRS financial statements ~~reporting period~~,* the first-time adopter may use such event-driven fair value measurements as deemed cost for IFRSs at the date of that measurement. If the measurement date is after the first-time adopter’s date of transition to IFRSs, the entity may apply this standard to measure assets and liabilities ~~elect a deemed cost~~ at the date of transition ~~that meets the criteria in paragraphs D5–D7~~. The event-driven fair value measurement within the entity’s first IFRS financial statements ~~reporting period~~ is recognized as deemed cost when the event occurs, with any adjustments directly recognized in equity.”

We suggest “first IFRS reporting period” be rephrased to “first IFRS financial statements” to make clear that the whole track record period is being referred to.

We do not agree to include the reference to paragraphs D5-D7. It is noted that paragraphs D5 - D7 are specific to property, plant and equipment, investment property and intangible assets, while paragraph D8 aims to apply to all assets and liabilities.

In addition, we are concerned that in certain cases, prior to the date of transition, entities may already have one event-driven revaluation. Therefore, the third sentence of paragraph D8 should be rephrased to allow them to use this event-driven fair value as deemed cost upon transitioning to IFRSs. At the same time, if there is another event-driven revaluation during the track record period, the whole paragraph would still allow this second event-driven revaluation value as deemed cost.

Finally, we suggest that the treatment of any adjustments arising from the application of this deemed cost be clarified. In this respect, we suggest that such adjustments should be directly recognized under “equity”.

Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the effective date and transitional provisions.

<u>Question 3</u>

The Board proposes changes to IAS 34 *Interim Financial Reporting* to emphasize its disclosure principles. It also adds to the guidance to illustrate better how to apply these principles. The Board published an exposure draft Fair Value Measurement in May 2009. In that exposure draft, the Board proposes that all of the fair value measurement disclosures required in IFRS 7 *Financial Instruments: Disclosures* for annual financial statements should also be required for interim financial statements.

Do you agree that this proposed amendment is likely to lead to more useful information being made available to investors and other users of interim financial reports? If not, why? What would you propose instead and why?

We consider that the proposed amendment to IAS 34 should lead to more useful information being made available to investors and other users of interim financial reports. It is believed that the enhanced disclosure requirements, especially in the field of fair value measurements and reclassification have become increasingly important in times of financial crisis.

<u>Question 4</u>

The Board proposes changes to IAS 34 Interim Financial Reporting. Do you agree that amending IAS 34 to require particular disclosures to be made in interim financial statements is a more effective way of ensuring that users of interim financial statements are provided with useful information? If not, why? What approach would you propose instead and why?

We support the proposed changes to IAS 34 Interim Financial Reporting.

Question 5

The Board proposes to amend IAS 40 Investment Property to remove the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale, to add a requirement for investment property held for sale to be displayed as a separate category in the statement of financial position and to require disclosures consistent with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Do you agree that the proposed amendment should be included within Improvements to IFRSs or should a separate project be undertaken to address this issue? If you believe a separate project should be undertaken, please explain why.

We disagree with the proposed amendment and do not believe that there is inconsistency in current practice. If an entity acquires a piece of land bank and has not determined what it will use the land for, it should be classified as investment property under IAS 40.8(b) and carried at fair value through profit or loss (FVTPL) (if that is the entity's policy, which frequently it is). If subsequently the entity decides to build houses on that land for sale, under the existing requirements in para 57(b) it would reclassify that land to inventory at its then fair value and during the construction period would measure that land and the construction work in the same way as any other property development for sale ie at lower of cost (being fair value at date of reclassification) and net realizable value. This results in consistent treatment between (a) land acquired knowing it was going to be developed for sale and (b) land acquired where the use was at first "undetermined". Para 57(b) therefore reduces the stress on para 8(b) as the time period for the FVTPL policy is limited until the development work commences.

Under the proposed amendment, however, that initial uncertainty over the use of the land will require the entity to continue to carry the land at fair value throughout the construction period, since under the amendment the land would stay as investment property until actually sold. This treatment seems inconsistent with IAS 2 and puts a lot more strain on para 8(b) than was originally intended. Moreover, it prevents the recognition of revenue a property developer who acquires an investment property for redevelopment and sale.