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

5 September 2012

IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

IFRS Foundation Invitation to Comment on Foundation Due Process Handbook

The Hong Kong Institute of Certified Public Accountants (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 Invitation to Comment. Our responses to the questions raised in your Exposure Draft are set out in **Annex 1** for your consideration.

The Institute appreciates the efforts that the IFRS Foundation and its Due Process Oversight Committee (DPOC) have made to improve the due process of the International Accounting Standard Board and the IFRS Interpretations Committee. The IFRSs are widely adopted internationally and proper adherence to due process is of paramount importance to maintain quality and credibility of the standards. It also helps underpin the continuing cooperative relationship between individual national standard setters and the IFRS Foundation.

We note that the IFRS Foundation Trustees (Trustees) has addressed some, but not all, issues that we raised in our response to the Trustees' Strategy Review in 2011 (a copy of our submission, dated 22 July 2011, is at **Annex 2**). We have taken the opportunity to highlight our comments on those matters which remain unresolved and which relate to this consultation for further consideration by the Trustees. Such concerns include voting benchmarks for the International Accounting Standards Board, development of the conceptual framework and the importance of fieldwork testing.

If you have any questions on our comments, please contact me at simonriley@hkicpa.org.hk.

Yours faithfully,

Simon Riley
Director, Standard Setting

SR/AW/ah

Encl.

Annex 1

Hong Kong Institute of CPAs

IFRS Foundation Invitation to Comment on IASB and IFRS Interpretations Committee Due Process Handbook

<u>Question 1</u>

The Trustees have included an introductory section dealing with 'oversight', and the responsibilities of the DPOC.

Do you support the inclusion and content of this section? Why or why not?

The Institute welcomes the inclusion of the introductory section as it sets the scene by defining clearly the role and responsibilities of the Due Process Oversight Committee (DPOC) within the IFRS Foundation.

We understand from paragraph 2.9-14 that the DPOC operates throughout the development of an IFRS or an Interpretation and for each technical project the International Accounting Standards Board (IASB) reports to the DPOC in a timely manner on how it has complied with its due process requirements.

The IFRSs are widely adopted internationally and therefore proper adherence to due process is of paramount importance for maintaining quality and credibility of the standards. That also underpins continuing cooperative relationship between individual national standard setters and the IFRS Foundation. We would recommend DPOC consider establishing a proactive mechanism to provide reasonable assurance that due process is properly adhered to, in addition to solely reactively reviewing each report provided by the IASB on how it has discharged the due process requirements.

We also understand from paragraph 8.5-6 of the Due Process Handbook (Handbook) that IASB's failure to comply in any one area of the Handbook does not render a pronouncement invalid. We are of the view that non-compliance with the Handbook, which is clearly not inadvertent in nature, may have to lead to pronouncements being suspended if publication has taken place before the breach of due process has been remedied, and a remedy is deemed necessary. Despite the consequence of such an incident being potentially significant, we would expect such circumstance to be extremely rare. Moreover, we believe that the implementation of a proactive mechanism by DPOC as proposed above, and the maintenance of the Due Process Protocol on the website, will help guide compliance with due process by the IASB and the IFRS Foundation Interpretation Committee (Interpretation Committee) and thus lower the chance of non-compliance.

<u>Question 2</u>

The DPOC have created a Due Process Protocol in the form of a table that shows the steps that the IASB must, or could, take, as well as reporting metrics to demonstrate the steps that they have taken, in meeting their due process obligations.

Do you agree with the idea that such a table should be maintained on the public website for each project? Why or why not?

The Institute agrees with the maintenance of the Due Process Protocol in Appendix 4 for each of the projects on the IASB Foundation website in the form of a table that shows the steps that the IASB must, or could, take, as well as reporting metrics to demonstrate the steps that they have taken, in meeting their due process obligations. We consider it would enhance transparency of due process and help to uphold the integrity of the due process by allowing public scrutiny.

In order to enhance the effectiveness of the Due Process Protocol, the Institute would recommend the DPOC ensures the content of the Protocol is consistent with the Due Process Handbook and hence guides appropriate actions by the IASB and the Interpretation Committee in complying with due process.

Question 3

A research programme is described, which we expect will become the development base from which potential standards-level projects will be identified. In addition, a new section on maintenance has been added, which formalizes the practice that the IASB and the Interpretations Committee have been following for addressing matters that are narrow in scope. It clarifies that the more formal project proposal processes were always intended to apply to new IFRSs and major amendments. The IASB has the discretion to initiate changes that are narrow in scope to IFRSs as part of the general maintenance of IFRSs. The new section also explains how the activities of the IASB and the Interpretations Committee are closely related.

Do you agree with the distinction between narrow-scope projects, which come under the heading of maintenance and comprehensive projects, which come under the heading of development of IFRSs? Why or why not?

Do you agree with the introduction of a separate research programme that will likely be the development base from which potential standards-level projects will be identified? Why or why not?

We consider the proposed distinction between narrow-scope projects and comprehensive projects aims to guide priority setting as well as resource allocation by the IASB in dealing with requests from stakeholders. Consistent with our response to Question 4 below, we consider it is important for the DPOC to incorporate assessment criteria to differentiate "narrow-scope" and comprehensive projects in the Handbook to facilitate fair and consistent decision making on comment period of re-exposure by the IASB.

The Institute welcomes the introduction of a separate research programme that will likely be the development base from which potential standards-level projects will be identified. Consistent with our comment provided through our comment letter dated 22 July 2011 on the IFRS Foundation Report of the Trustee's Strategy Review, the research function would provide a sound basis for developing the future agenda of the IASB and, in particular, could prove invaluable in making progress on developing the conceptual framework.

Question 4

Two changes to comment periods are proposed. The first would increase the minimum comment period for exposing the draft of a rejection notice of a request for an Interpretation request from 30 days to 60 days. The other change relates to the re-exposure of a document. The DPOC is proposing to allow the IASB to have a reduced comment period of a minimum of 60 days for documents it plans to re-expose, if the re-exposure is narrow in focus.

Do you agree with the changes in the comment period lengths for rejection notices and re-exposure drafts? Why or why not?

The Institute supports the increase of the minimum comment period for a draft of the rejection notice from 30 to 60 days. We consider that would help ease the Interpretations Committee's concern on not receiving sufficient feedback on draft rejection notices. However, we consider the Interpretation Committee should have the flexibility to use a more-than-minimum comment period in case of potentially controversial issues.

The Institute supports the DPOC's proposal to allow the IASB to have a reduced comment period of a minimum 60 days for documents it plans to re-expose, if the re-exposure is narrow in focus. We acknowledge the DPOC's reasoning that some re-exposure documents are intended to focus on a narrow aspect of an exposure draft, rather than being a fundamentally different document. In that case, a minimum 120-day comment period may not be necessary and may lead to an undue delay in the publication of a final IFRS.

However, we are also mindful that more extensive re-exposures may be required for controversial issues or when the potential impact of a proposal might be significant. As these involve significant judgment, we recommend the DPOC to consider incorporating assessment criteria on "narrow in focus" in the Due Process Handbook to facilitate fair and consistent decision making on comment period of re-exposure by the IASB.

In relation to the length of comment period of IASB consultative documents, we have other comments on the DPOC's proposal on shortening the comment period to below 30 days in exceptional circumstances and on the proposed 60 day comment period on Requests for Information. Please refer to our responses to Question 5 below for further comment.

Question 5

Are there any other matters in the proposed handbook that you wish to comment on, including matters that are not covered by the handbook that you think should be?

Comment period of IASB consultative documents

We noted from paragraph 6.8 of the Handbook that the IASB may reduce the period for public comment on an exposure draft below 30 days in exceptional circumstances, and only after formally requesting and receiving prior approval from 75 percent of the Trustees. Although we believe such circumstances should be reasonably rare, we are still not supportive of the proposal. A significantly reduced comment period would preclude us from properly performing our due process and providing our local constituents with a reasonable window to consider and express their views.

We also understand from paragraph 4.20 of the Handbook that the minimum comment period for a Request for Information is 60 days. We understand that Requests for Information are formal requests by the IASB for information or feedback on a matter related to technical projects or broader consultations. Examples of appropriate topics for a Request for Information include seeking input on its three-yearly consultation on the IASB technical work programme, post-implementation reviews or help in assessing the practical implications of a potential financial reporting requirement. As there are possibilities that the Request for Information is used to solicit input on complicated or sophisticated topics, we would expect the IASB to be flexible and use a more-than-minimum comment period in such circumstances.

Issues referred by the Monitoring Board

It is mentioned in paragraph 5.7 that referrals from the Monitoring Board do not need to follow the formal consultation process as set out in paragraph 5.1-5.3.

Under paragraph 5.1, the IASB is required to consider the following when deciding whether a proposed agenda item will address users' needs: (i) the importance of the matter to those who use financial reports; (ii) the types of entities likely to be affected by any proposals, including whether the matter is more prevalent in some jurisdictions than others; and (iii) how pervasive or acute a particular financial reporting issues is likely to be for entities.

We consider the abovementioned criteria are essential for deciding whether the referral will address users' needs, for example, IASB should consider how acute the particular financial reporting issue referred by the Monitoring Board is likely to be when making its decision. In this connection, we consider that the criteria in paragraph 5.1 should be duly followed without exception.

Voting benchmark of the IASB

We noted from paragraph 3.16 of the Handbook that a supermajority of the IASB requires nine members to ballot in favour of publication of a document if the IASB has fifteen, or fewer, appointed members, or ten members in favour if the IASB has sixteen appointed members.

We expressed our concern on such a voting benchmark in our submission on the IFRS Foundation Report of the Trustee's Strategy Review dated 22 July 2011. In our view, the approval threshold has been set too low. A 40% dissenting vote from a body of persons who are in the best position to have fully examined the proposals and discussed the views of the IASB staff and other Board members indicates that there is still legitimate cause for concern that the standard is in some way deficient or weak. The IASB has the objective of issuing “globally accepted standards” and well accepted and understood standards (if they are consistent with the IASB Conceptual Framework) are likely to be better applied in practice by both preparers and users. We are therefore disappointed that our comment on this issue has not been taken into account and request that the DPOC and Trustees to reconsider this matter.

Development of conceptual framework

We note that paragraphs 4.23-26 states that one of the standing activities of the IASB is its work on the conceptual framework, and that the IASB provides the Advisory Council with an update of the work it is undertaking on the Conceptual Framework at Advisory Council meetings.

We agree that the importance of the Conceptual Framework should be acknowledged in the Handbook and accordingly we would like to reiterate our comments on the conceptual framework which were previously raised in our submission on the IFRS Foundation Report of the Trustee's Strategy Review dated 22 July 2011. Given the importance of the Conceptual Framework, we believe it should be taken into account in the agenda-setting process where a focus on addressing "the most pressing financial reporting issues" may encourage a continuing agenda of reactive "quick fixes".

We also believe that fundamental changes to any existing standards should not be made before these changes have been debated at the conceptual level first. The IASB should refrain from making any further substantial changes to individual standards until completion of the review of Conceptual Framework.

Education sessions

We understand from paragraph 3.37 of the Handbook that education sessions are sometimes held before IASB meetings to give IASB members a chance to clarify points in the papers and discuss details of approaches or disagreements with the staff in advance of the decision-making meeting.

IFRS is widely-adopted internationally and thus stakeholders are significantly widespread. We recommend the IASB considers making education sessions publicly available through webcasts to ensure stakeholders at large are well informed. We also believe implementation of standards is as important as development and therefore we would recommend IASB to develop online training modules on new standards issued, similar in nature to those online modules developed for IFRS for SMEs. We consider this would be useful in particular for practitioners who work in the SME sector, covering small to mid-sized listed companies adopting IFRSs.

Assigned IASB members

We understand from paragraph 3.39 of the Handbook that the IASB Chair normally assigns specific IASB members to major projects and noted that recommendations made in staff papers do not necessarily have to reflect the views of the assigned IASB members. We would like to recommend that the IASB members assigned to the project should take full charge and be responsible for the project such that there is more accountability and IASB members bring to the table their full experience and expertise.

Numerical analysis on comment letters

We understand from paragraph 3.66 of the Handbook that the staff does not normally provide the IASB with any numerical analysis of how many respondents expressed a particular view because it is the strength of the analysis, and the evidence supporting the analysis, that is important.

We are of the view that the proposed approach is acceptable yet a numerical analysis may also provide an alternative view of support for the proposals by commentators from various jurisdictions. Accordingly, a simple numerical analysis that can group commentators under regions and nature could be useful.

Fieldwork

We understand from paragraph 3.67 of the Handbook that the IASB and its staff sometimes use fieldwork to gain a better understanding of how a proposal is likely to affect those who use and apply IFRSs. We also understand from paragraph 3.70 that undertaking fieldwork is not mandatory, but if the IASB decides not to do so, it must explain why on the project page and inform the DPOC.

The Institute would like to reiterate its comment on the topic as previously raised in its comment letter on the IFRS Foundation Report of the Trustee's Strategy Review dated 22 July 2011. We are of the view that in view of its importance thorough field testing should be made a formal step in the standard setting process and should be carried out at a very early stage before a standard or preferably an exposure draft is finalised and issued. Accordingly, we believe more resources should be allocated to ensure field testing is carried out properly and effectively.

Timely response by the Interpretations Committee

We understand that Interpretations are authoritative guidance on widespread accounting issues and form part of the IFRSs. We recommend the IFRS Foundation should consider allocating additional resources to this important function to enhance its responsiveness such that the credibility of the IFRS Foundation and the Interpretation Committee is upheld.

~ End ~

Annex 2

Our Ref.: C/FRSC

Sent electronically through email at strategyreview-comm@ifrs.org

22 July 2011

Tom Seidenstein
Chief Operating Officer
IFRS Foundation
30 Cannon Street,
London EC4M 6XH,
United Kingdom

Dear Mr. Seidenstein,

IFRS Foundation Report of the Trustee's Strategy Review – IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade (Trustee Report)

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 for the consideration by the IFRS Foundation Trustees.

It is our understanding that the Trustees are seeking views of stakeholders for a second time, in addition to the consultation completed earlier in 2010, on the strategy review that addressees four strategic fronts — the IFRS Foundation's mission, governance, the standard-setting process, and financing of the IFRS Foundation through this Trustee Report. Our submission on the Trustees' first consultation can be viewed at http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/submission-pdf/2011/future-strategy.pdf.

The salient features of our comments on this second consultation, certain matters of which were raised during the Trustees' Strategy review Roundtable in Hong Kong on 8 June 2011, are:

- **On mission** – We believe that it is important for the Trustees to clearly define the scope of its work by establishing clear boundaries of information that will be presented in "financial reporting" vis-à-vis "financial statements". This will have an important impact on the work undertaken by the Foundation and on those responsible for their preparation, and whether the information is or should be subject to audit.

- **On governance** – We recommend that the Monitoring Board and the Trustees develop a joint communication on the respective responsibilities of each party as there is still a lot of confusion amongst stakeholders as to the exact roles of the Monitoring Board and the Trustees. Such communication would be an important step in enhancing an understanding of their respective roles and avoiding the overlap of responsibilities.

- **On process –**

  - Trustee oversight of the IASB's due process

    We welcome the proposed greater involvement of the Trustees in the IASB's due process. We also believe that the Trustees and the IASB must ensure that thorough field testing is a "formal" step in the standard setting process in view of its importance and this should be carried out at a very early stage before a standard or preferably an exposure draft is finalised and issued.

  - Refine the scope of the IFRS Interpretations Committee's Activities

    We recommend the Trustees to revise the responsibilities of the IFRS Interpretations Committee, especially its role in the standard setting process. We believe its review of discussion papers and exposure drafts before they are published for public comment is perhaps more important. Its role should also include some post implementation reviews so that they obtain direct hands on knowledge of the practical aspects and problems arising from interpreting and implementation of the standards.

  - Agenda setting and the importance on development of conceptual framework

    We believe that fundamental changes to any existing standards should not be made before these changes have been debated at the conceptual level first. The IASB should refrain from making any further substantial changes to individual standards until completion of the review of the conceptual framework.

  - Convergence concern – cooperation with FASB

    We believe that the main emphasis of the IASB should be on the development and adoption of high quality global financial reporting standards. Sufficient time needs to be allowed to carefully adjust the proposals in the exposure drafts where needed, making them fully operational, and to ensure that the proposals result in better standards and improve financial reporting.

    There are occasions that the standards separately proposed by the IASB and FASB do not result in converged financial reporting standards. We consider that the IASB and FASB should resolve the differences in financial reporting standards and seek more cooperation such that a single set of global accounting standards can become a reality.

  - Voting benchmark of the IASB

    In our submission to the IFRS Foundation on the Trustee's Strategy Review dated 24 February 2011, we expressed our concern on only nine votes out of the fifteen IASB members is required to approve a new or revised standard. We are disappointed that in the report the Trustees do not appear to have addressed introducing a higher percentage supporting vote and would request that the Trustees reconsider this matter.

- "Auditability" and usefulness of information

  We believe that the Trustees' strategy should revisit the meaning of the key terms "material" and "true and fair view" as these are fundamental in the development of high quality accounting standards. We would also suggest that the Trustees should ensure that the IASB co-ordinates its efforts with the IAASB so that the two bodies have a similar framework or view on "materiality" and "true and fair view" when developing their separate standards.

- Dedicated research capacity

  We welcome the proposal by the Trustees to establish such a research capacity. We consider that the research function proposed by the Trustees would provide a sound basis for developing the future agenda of the IASB and, in particular, could prove invaluable in making progress on the conceptual framework.

- Post-implementation review

  We acknowledge the importance of reviews in order to enhance consistency of IFRS implementation and recommend the IASB to reconsider the following factors as part of the post-implementation reviews:

  - Joint effort by the IASB and FASB
  - Timing for the review of new standards and consideration of pre-implementation review
  - Post implementation review of other standards
  - Involvement of national standard-setters

- The lack of linkage between the concept of realization for distribution purposes and concept of income recognition under IFRSs

  In our submission to IFRS Foundation on the Trustee's Strategy Review dated 24 February 2011, we expressed our concern that the concept of income recognition under IFRSs is increasingly unrelated to the concept of realization, which makes the performance statement less useful for directors as a basis for determining the level of dividends to be proposed and for investors to make assessments as to the company's dividend trends and policy. We are disappointed that this issue has not been mentioned in the Trustees' comments on the scope and focus of the IASB's work.

- **On financing** –We believe the Trustees could improve the transparency of its budget setting process and disclose in reasonable detail its annual budget and how the funds will be used. This would support its funding efforts and at the same time may assist in increasing public appreciation and confidence in the Foundation's work.

--- Details of the above are set out in the Appendix.

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

Yours sincerely,

Steve Ong, FCA, FCPA
Director, Standard Setting

IFRS Foundation Trustees Report of the Trustees' Strategy Review - IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade

Section A Mission: defining the public interest to which the IFRS Foundation is committed

(i) *"Financial reporting" versus "financial statements"*

The Trustee Report states that the IFRS Foundation's mission as the standard setting body is to develop financial reporting standards that provide a faithful representation of an entity's financial position and performance. Page 8 of the Trustee Report further states that the global standards it develops "require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions".

In formulating its long term strategy, it is important that the Trustees clearly define the scope of its work. We believe that "financial reporting" is significantly wider in scope than "financial statements" and the Trustees should establish clear boundaries of information that will be presented in "financial reports" vis-à-vis "financial statements" as this will have an important impact on the work undertaken by the Foundation and on those responsible for their preparation, and whether the information is or should be subject to audit. The IFRS Foundation may wish to primarily focus its attention on "financial statements" rather than the broader responsibilities of "financial reporting".

Section B Governance: independent and publicly accountable

(i) *Clarity over the respective roles of the Trustees and the Monitoring Board*

It is stated under the heading B2 of the Trustee Report that "The existing three-tier structure (Monitoring Board, Trustees, IASB) is appropriate for the organisation's mission. Within that governance structure, the Monitoring Board, the IFRS Foundation and the IASB should enhance their interaction and procedures where appropriate to reinforce the principles of transparency, public accountability and independence. In doing so, the roles and responsibilities of each element of the organisation's governance should be clearly defined."

The Institute is aware that the institutional aspects of governance, particularly the composition and the respective roles and responsibilities of the Monitoring Board, Trustees and IASB are within the scope of the Monitoring Board's review whereas the Trustee Report (as stated in the document) addresses mainly the IFRS Foundation's mission and operations, the Trustees' activities, the IASB's due process, and financing. We also note that the Trustees are committed to co-ordinating the conclusion of their review with the IFRS Foundation Monitoring Board, in order to arrive at an integrated set of proposals on the basis of the proposals (as contained in this Trustee Report) and the final decisions reached by the Monitoring Board following its separate public consultation.

We are supportive of the above. However, we would like to highlight that it is important to clarify the respective roles of the Trustees and the Monitoring Board. Based on the current structure of the IFRS Foundation, we have concerns that the structure does not appear to provide clear lines of responsibilities and accountability. This may be due to the way the structure is depicted in the diagram (under the heading "How we are Structured" of the IFRS Foundation "Who We Are and What We Do" document - http://www.ifrs.org/NR/rdonlyres/F9EC8205-E883-4A53-9972-AD95BD28E0B5/0/WhoWeAreEnglishMay2011.pdf) and the use of terms such as "inform". A structure along the lines of a corporate structure could be considered by the IFRS Foundation to clearly show the reporting lines and to delineate the separate roles of strategy development and overall governance, production of detailed accounting standards, research and development and other ancillary administrative and support functions such as a separate Compliance and Monitoring function, which would be responsible for identifying practical issues encountered in implementation and use of the Foundation's standards.

We would recommend that the Monitoring Board and the Trustees develop a joint communication on the respective responsibilities of each party as there is still a lot of confusion amongst stakeholders as to the exact roles of the Monitoring Board and the Trustees. Such communication would be an important step in enhancing an understanding of their respective roles and avoiding the overlap of responsibilities.

Section C Process: ensuring that its standards are of high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world

(i) *Trustee oversight of the IASB's due process*

In relation to the IASB's due process, the following is stated under the heading C2 of the Trustee Report:

"The Trustees believe that stakeholders' confidence in the standard-setter process will improve if the regular interaction between the Trustees' Due Process Oversight Committee and the IASB includes a focused, regular and systematic review of the due process of current projects… Before finalising a new standard or major revision of an existing standard, the IASB should make a presentation to the Trustees' Due Process Oversight Committee explaining how it has complied with each step of the required due process … Following the IASB's presentation and before conclusion of the IASB's project, the Due Process Oversight Committee would need to review and discuss compliance with the IASB's procedures and report on their oversight."

The Institute welcomes this proposed greater involvement of the Trustees in the IASB's due process. In particular we agree that introducing a specific due process review prior to the finalisation of any new standard or major revision is a significant enhancement, as we anticipate that it will introduce a useful check and balance to the technical independence of the IASB, which will focus on how the IASB has responded to views expressed during the public consultation phase and sought to issue standards which are both high quality and practical.

We also believe that the Trustees and the IASB must ensure that thorough field testing is a "formal" step in the standard setting process in view of its importance and this should be carried out at a very early stage before a standard or preferably an exposure draft is finalised and issued. More resources should be allocated to this step to ensure field testing is carried out properly and effectively. In addition, we believe the Foundation should carefully re-consider the timing and the effective date on which new standards become mandatory with a view to this being later in some cases, to reduce the compliance burden and confusion to the markets.

(ii) *Refine the scope of the IFRS Interpretations Committee's Activities*

Under the heading of C4 of the Trustee Report, we note that the Trustees plan to refine the scope of the IFRS Interpretations Committee's activities to ensure consistency of interpretation, without undermining the commitment to a principle-based approach to standard-setting. We would prefer the Trustees to revise the responsibilities of the IFRS Interpretations Committee, especially its role in the standard setting process.

Under the current practice the pre-ballot draft of an IFRS to be released is normally sent to the IFRS Interpretations Committee for a fatal flaw review. We believe its review of discussion papers and exposure drafts before they are published for public comment is perhaps more important at the pre-ballot draft stage. Its role should also include some post implementation reviews so that they obtain direct hands on knowledge of the practical aspects and problems arising from interpreting and implementation of the standards.

(iii) ***Agenda setting and the importance on development of conceptual framework***

In relation to agenda setting, the following is stated under the heading C3 in the Trustee Report:

"The Trustees recently introduced a requirement to have three-yearly public consultations on the IASB's agenda and priorities. The first such review will take place in 2011.

In undertaking the public consultation, the IASB should actively engage the IFRS Advisory Council and other stakeholders. The Trustees believe that engaging stakeholders in the development of agenda priorities will enable the IASB to address the most pressing financial reporting issues. Furthermore, it will strengthen public confidence in the standard-setting process.

As part of the agenda-setting process and following the public consultation, the IASB should provide a feedback statement explaining how it accounted for the views of the Trustees, the IFRS Advisory Council, the Monitoring Board and stakeholders. As with other elements of the IASB's due process, the IASB will review progress on its agenda-setting process with the Trustees' Due Process Oversight Committee."

The proposed measures by the Trustees are welcomed as they promote a more transparent agenda-setting environment. Having said that, we are of the view that the importance of the conceptual framework should be acknowledged and taken into account in the agenda-setting process and we are concerned that a focus on addressing "the most pressing financial reporting issues" may encourage a continuing agenda of reactive "quick fixes".

We still believe that fundamental changes to any existing standards should not be made before these changes have been debated at the conceptual level first. The IASB should refrain from making any further substantial changes to individual standards until completion of the review of the conceptual framework. We believe that the conceptual framework should be core to the development of accounting standards as this will ensure consistency of specific standards with a single cohesive body of key underlying concepts and principles for financial reporting. It is noted that in certain respects the recently released discussion papers and exposure drafts introduced conflicting concepts and principles, which, if implemented would have led to confusion and the development of rule-based standards rather than principle-based standards.

(iv) *Convergence concern – cooperation with FASB*

It is stated in the Trustee Report that the willingness of the United States to engage in convergence, accept IFRSs for non-US companies and consider possible adoption for US companies is one of the key factors of the success of IFRSs to date.

The Trustee Report has made the following remark on the progress of the convergence project:

"Beginning with the 2002 Norwalk agreement, an intensive and joint convergence programme has been a dominant feature of the IASB's agenda. Importantly, the convergence process has led to improvements of the inherited standards, reduced differences with US GAAP, and the removal of the reconciliation requirements by the US Securities and Exchanges Commission (SEC). At the same time, the United States has yet to make a final decision on adopting IFRSs. A recent SEC staff work plan indicates that the SEC expects to make a determination in 2011 on the use of IFRSs. This determination will have an impact on the consideration of IFRSs by other major economies (eg China, India and Japan) and the growing number of emerging markets that are implementing IFRSs as their chosen accounting standards."

We acknowledge the importance and potential advantages of convergence with US GAAP. However, we believe that the main emphasis of the IASB should be on the development and adoption of high quality global financial reporting standards. As an existing adopter of IFRS, we have been concerned about the undue time pressure the IASB and FASB MoU on convergence has caused and its impact on the quality of the resulting exposure drafts. Sufficient time needs to be allowed to carefully adjust the proposals in the exposure drafts where needed, making them fully operational, and to ensure that the proposals result in better standards and improve financial reporting.

We note that the IASB has proposed substantial changes to IFRSs with the intent to converge with US GAAP. Such proposed changes include but are not limited to changes in the standards on revenue recognition, leases, insurance contacts and financial instruments. There are occasions that the standards separately proposed by the IASB and FASB do not result in converged financial reporting standards. We consider that the IASB and FASB should resolve the differences in financial reporting standards and seek more cooperation such that a single set of global accounting standards can become a reality. Otherwise, there will not be a level playing field despite all the efforts by existing IFRSs adopters to keep up with the constant requests for comment on consultation documents and the resulting changes to financial reporting standards.

(v) *Voting benchmark of the IASB*

In our submission to the IFRS Foundation on the Trustee's Strategy Review dated 24 February 2011, we expressed concern that approval of a new or revised standard requires only nine votes out of the fifteen IASB members. In our view, different accounting solutions can be of equally high quality, and the one that achieve greatest consensus from well-informed commentators is usually the one that should be retained. We are therefore disappointed that in the report the Trustees do not appear to have addressed introducing a higher percentage supporting vote and would request that the Trustees reconsider this matter.

(vi) *"Auditability" and usefulness of information*

The Institute believes that high quality reporting depends on an entity's board and management or those charged with governance. They are responsible for the preparation of financial statements that give a "true and fair view" or equivalent terms such as "present fairly" and "faithful representation".

We believe that whether financial information is reliable and auditable should be two criteria for information to be included in "financial statements" or at least in the "primary financial statements" and supporting detailed explanatory notes. An audit plays an important role in providing an independent view on the reliability of the information. If information is non-auditable, we believe it should normally be placed outside the "financial statements". We note that the International Auditing and Assurance Standards Board (IAASB) has also issued a useful discussion paper on "The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications". The paper raised issues concerning disclosures, whether all required disclosures under IFRSs are material and what disclosures are in fact auditable.

We believe that the Trustees' strategy should therefore revisit the meaning of the key terms "material" and "true and fair view" as these are fundamental in the development of high quality accounting standards. Currently, these terms are not fully discussed and explained. There is only a brief description available on "materiality" (see paragraph QC 11 of Conceptual Framework for Financial Reporting – 2010 version) and paragraph 15 of IAS 1 "Presentation of Financial Statements" only briefly describes what amounts to a "true and fair view" which should be the ultimate goal of information provided in financial statements. Without clarity on the concept of "materiality" and "true and fair view", we believe it will be difficult to apply IFRSs on a consistent basis.

We would also suggest that the Trustees should ensure that the IASB co-ordinates its efforts with the IAASB so that the two bodies have a similar framework or view on "materiality" and "true and fair view" when developing their separate standards.

(vii) ***Dedicated research capacity***

In relation to dedicated research capacity, the following is stated under the heading C6 in the Trustee Report:

"The IFRS technical staff have no dedicated resource for accounting research to understand how existing standards are operating, to analyse trends of financial reporting and to identify future issues. This is the consequence of limitations on financial resources and the focus on completing the present work programme. The Trustees recommend establishing, or facilitating the establishment of, a research capacity that could draw upon some combination of internal and external intellectual resources, including a more active engagement of the academic community. The Trustees would necessarily seek dedicated, separate financing to support such a research capacity."

The Institute welcomes the proposal by the Trustees to establish such a research capacity. We consider that the research function proposed by the Trustees would provide a sound basis for developing the future agenda of the IASB and, in particular, could prove invaluable in making progress on the conceptual framework.

(viii) ***Post-implementation review***

In relation to post-implementation review, the following is stated under the heading C4 in the Trustee Report:

"The IASB can play an important role through its post-implementation review and, using the IFRS Interpretations Committee, the interpretations process. The IASB is required to undertake post-implementation reviews of new IFRSs, as well as major amendments to IFRSs and major interpretations after at least two full years of implementation, to be completed within three years of the pronouncement's effective date. These reviews were designed to be limited to important issues identified as contentious during the development of the pronouncement and would review any unexpected costs or implementation problems encountered.

The IASB is now about to consider the first standards subject to such a review. The IASB is developing a clear and transparent methodology for undertaking these reviews."

The Institute acknowledges the importance of post-implementation reviews in order to enhance consistency of IFRS implementation. Having said that, we have the following comments on the IASB's post-implementation reviews:

- Joint effort by the IASB and FASB

  We are of the view that FASB should also be involved in the review to facilitate consistent understanding of the implementation issues reached by the organisations and that further appropriate joint action can be taken as appropriate.

- Timing for the review of new standards and consideration of pre-implementation review

  We consider that carrying out a post-implementation review on new standards or major amendment two years after their mandatory application date may be too late. We consider that the timing for the review should be reconsidered in order to make the review more useful and meaningful. We recommend that the IASB establish a pre-implementation mechanism similar to that which the International Auditing and Assurance Standards Board has adopted to enhance its responsiveness to practical issues of standards adoption.

- Post implementation review of other standards

  We suggest that the IASB should carry out post-implementation reviews of some of the older standards that are not under the current work plan but which entities are finding difficult to understand or are difficult to apply in practice. For example: IAS 36 *Impairment of Assets* is commonly viewed as more problematic in practice than IFRS 8 *Operating Segments* and IFRS 3 *Business Combinations* but does not appear to have been subject to any post-implementation review since its issuance.

- Involvement of national standard-setters

  We are of the view that the direct involvement by the IASB Technical Staff in the post-implementation review, rather than solely relying on the national standard setters, would better facilitate the IASB Technical Staffs' understanding and consideration of the practical issues. For example, the HKICPA can coordinate and arrange meetings and roundtables between the IASB Technical Staff and the stakeholders by utilizing our established local networks and relationships for Hong Kong.

(ix) ***The lack of linkage between the concept of realization for distribution purposes and concept of income recognition under IFRSs***

In our submission to IFRS Foundation on the Trustee's Strategy Review dated 24 February 2011, we expressed concern that the concept of income recognition under IFRSs is increasingly unrelated to the concept of realization, which makes the performance statement less useful for directors as a basis for determining the level of dividends to be proposed and for investors to make assessments as to the company's dividend trends and policy. Since the extent to which a company has generated distributable profits and has determined whether or not to distribute those profits are key pieces of decision-useful information, we are concerned that it is increasingly becoming necessary to supplement IFRSs performance information with reconciliations or alternative measures of "profit" for distribution purposes.

For example, once IFRS 9 is adopted, companies may need to maintain separate memorandum information on the portfolio of equity securities to identify realised profits and losses, as neither the "fair value through profit and loss" nor "the "fair value through other comprehensive income" model under IFRS 9 will provide such information. We also see a lack of conceptual consistency in requiring fair value changes on illiquid investment property to be reported within profit or loss, whereas changes in liquid equity securities are reported in other comprehensive income.

Such differences between accounting treatments within IFRSs and the concept of realised profits and losses have led to the development of extensive guidance published by the Institute of Chartered Accountants in England and Wales and Institute of Chartered Accountants of Scotland, and adopted by the HKICPA, on the question of "generally accepted accounting principles for the purposes of determining realised profits and losses". In our view the need for such guidance on how to adjust IFRSs "profit" to arrive at a more useful measure of performance runs the risk of undermining the credibility of IFRSs, particularly where there is no consistent conceptual basis on which the IFRS "profit" has been determined.

We therefore consider that it is important for the IASB to re-focus on the importance of performance statements for users of the financial statements. Such a re-focus should include articulating in the conceptual framework the conceptual difference between "profit" and "other comprehensive income", with due regard to commonly accepted concepts of distributable profits and with a view to reducing the extent of reconciling adjustments to IFRS "profit" that are required to arrive at a consistently prepared measure of "realised" profit.

We are therefore disappointed that this issue has not been mentioned in the Trustees' comments on the scope and focus of the IASB’s work, as discussed on page 11 of the Trustee’s Report.

Section D Financing: ensuring the organization is financed in a manner that permits it to operate effectively, efficiently and independently

(i) *Transparency of the budget setting process and use of fund*

We are pleased that the Trustees recognise the importance and urgency to expand the funding base for the IFRS Foundation. We believe the Trustees could improve the transparency of its budget setting process and disclose in reasonable detail its annual budget and how the funds will be used. This would support its funding efforts and at the same time may assist in increasing public appreciation and confidence in the Foundation's work. To meet its mission to work in the public interest and to encourage the adoption of IFRSs, the Trustees could consider to make its final standards (and not only its discussion papers and exposure drafts) freely available for download from its website.

~ End ~