香港會計師公會
HONG KONG SOCIETY OF ACCOUNTANTS
(Incorporated by the Professional Accountants Ordinance, Cap. 50)

<u>BY FAX AND BY POST</u>

Our Ref.: C/UII 8 July 2003

The International Financial Reporting Interpretations Committee,
International Accounting Standards Board,
30 Cannon Street,
London EC4M 6XH,
United Kingdom.

Dear Sirs,

International Financial Reporting Interpretations Committee
<u>- IFRIC Draft Interpretation D1</u>

We have reviewed the International Financial Reporting Interpretations Committee (IFRIC) Draft Interpretation D1, Emission Rights. Although it appears that the draft consensus set out in paragraph 5 is consistent with the requirements under International Financial Reporting Standards, we consider that D1, as currently drafted, focuses on rule making for one specific type of emission rights scheme rather than establishing principles for schemes in general. We believe that this would set an undesirable precedent for the future development of interpretations as it establishes no guiding principles or conclusions that can be applied to analogous circumstances.

In addition, as far as the allowances that are allocated for less than fair value are concerned, we note that D1 proposes to restrict certain treatments (i.e. recognising the grants at nominal value and recognising the grants as a reduction in the carrying amount of an asset) that would otherwise be permitted under IAS 20, Accounting for Government Grants and Disclosure of Government Assistance. Although the treatment proposed in the Draft Interpretation is consistent with the treatment of government grants under the recently issued IAS 41, Agriculture, we have concerns about the attempt of the IFRIC to issue an interpretation to restrict certain treatments currently permitted under IAS 20 for a specific subset of government grant. As a result, the IFRIC would in effect create two different bodies of GAAP. Accordingly, we consider that the more appropriate approach would be to eliminate options from IAS 20.

We also consider that some elaboration is required for the IFRIC's conclusion in paragraph BC7 that the residual value of an allowance is the same as its cost (or revalued amount) and thus an allowance should not be amortised. The statement in BC7 is expressed in rather absolute terms and, even though we do not necessarily disagree with the statement, it is not clear to us as to how the IFRIC came to that conclusion.

If you have any questions on our comments, please do not hesitate to contact Mr. Simon Riley, Deputy Director (Accounting) at the Society, in the first instance.

Yours faithfully,

WINNIE C.W. CHEUNG
SENIOR DIRECTOR
PROFESSIONAL & TECHNICAL DEVELOPMENT
HONG KONG SOCIETY OF ACCOUNTANTS

WCC/SR/al

香港金鐘道八十九號力寶中心二座四樓
4th Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong
Tel: 2287 7228 Fax: 2865 6603 / 2865 6776
http://www.hksa.org.hk E-mail: hksa@hksa.org.hk