

9 July 2003

Hong Kong Society of Accountants
4/F., Tower Two
Lippo Centre
89 Queensway
Hong Kong

Attention: Deputy Director, Accounting

Dear Sir,

**Re: Exposure Draft of a Proposed Preface to Hong Kong Financial Reporting
Standards and Accounting Guidelines (the Proposed Preface)**

We welcome the opportunity to comment on the Proposed Preface.

In general, we are in agreement with the proposed text for the Preface and support its issuance. There are no substantive matters to which we have any objections.

However, there are a small number of detailed textual improvements that we suggest for further consideration. These are set out in the Appendix to this letter.

If you have any queries in relation to the matters raised, please contact Norma Hall at this office (2852 5864).

Yours faithfully,

Deloitte Touche Tohmatsu

Suggested Improvements for the Proposed Preface

Paragraph	Suggested Improvement
Title	<p>The title currently includes Accounting Guidelines. The introduction states that the Preface sets out the scope and authority of Accounting Guidelines and Accounting Bulletins. It is not clear why Accounting Guidelines should be referred to in the title, but not Accounting Bulletins.</p> <p>In fact, we would suggest that the reference to Accounting Guidelines be deleted from the title. The document is primarily concerned with HKFRSs. The 3 paragraphs referring to Accounting Guidelines and Accounting Bulletins do not merit that degree of prominence.</p>
Introduction	<p>The 2nd sentence currently states that the term HKFRSs should be taken to include all SSAPs issued by the Council and currently in use. For completeness, we suggest that the sentence should state that the term should be taken to include all SSAPs <u>and Interpretations</u> issued by Council and currently in use. This would remove a possible ambiguity, and would be consistent with paragraph 5 of the IASB Preface.</p>
2	<p>Is it true to say that Council has delegated its standard setting function to the FASC? Although the FASC does the preparatory work, all documents are required to be approved by Council. A standard does not achieve the status of HKFRS without approval by Council. Therefore, we would suggest, that the wording be modified to more appropriately reflect this division of powers.</p>
5(c)	<p>The paragraph refers to the HKSA <i>promoting and supporting</i> compliance with HKFRSs by members of the HKSA, whether as preparers or auditors of financial information. Given that the general objective of promoting the use and rigorous application of HKFRSs is dealt with in the previous sub-paragraph, would it not be more appropriate for paragraph 5(c) to refer to enforcement, rather than promotion and support?</p>
6	<p>In the last sentence, reference is made to the need to <i>achieve</i> consistency with the legal framework. Given that HKFRSs are currently consistent with the legal framework, and they should never be otherwise, this paragraph should rather refer to the need to <i>maintain</i> consistency with the legal framework.</p>
10	<p>Paragraph 10, which is a copy of the equivalent paragraph in the IASB Preface, states that a complete set of financial statements should include a cash flow statement. However, unlike IFRSs, Hong Kong's SSAP 15 exempts certain enterprises from the requirement to prepare a cash flow statement. The wording of paragraph 10 should be modified to take this into account.</p>

Paragraph	Suggested Improvement
23	<p>It is difficult to express the HKSA's due process in as simple a fashion as the IASB process, because a project to issue a new HKFRS can arise from one of three sources:</p> <ul style="list-style-type: none"> • a proposed new IFRS; • adoption of an existing IFRS; and • other (e.g. a Hong Kong specific issue arising from a legal change, or otherwise). <p>Paragraph 23 as currently drafted deals only with the first of these categories. It doesn't flow sensibly for the other categories. Therefore, we believe, it may be necessary to expand the discussion so as to take account of all of the possibilities.</p>
35	<p>In terms of logical flow, this paragraph would be more appropriately located immediately following paragraph 21.</p>