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OF
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By email: commentletters@hkicpa.org.hk & post

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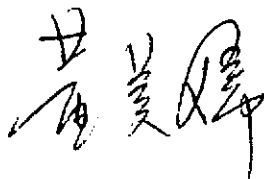
Dear Steve

**International Accounting Standards Board's Request for Views on Effective Dates
and Transition Methods**

We refer to your letter dated 3 November 2010 inviting our comments on the International Accounting Standards Board's Request for Views on Effective Dates and Transition Methods in October 2010.

Our responses to the specific questions raised in the request are attached. We would be happy to further clarify or discuss any of our comments should you so wish.

Yours sincerely



Eva Wong
Secretary

Enc.

Chairman Bank of China (Hong Kong) Ltd
Vice Chairmen The Hongkong and Shanghai Banking Corporation Ltd
Standard Chartered Bank (Hong Kong) Ltd
Secretary Eva Wong Mei Seong

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**Responses of the Hong Kong Association of Banks (HKAB) to
Specific Questions in the International Accounting Standards Board's
Request for Views on Effective Dates and Transition Methods**

Question 1

Please describe the entity (or individual) responding to this Request for Views.

- (a) Please state whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor or other user of financial statements (including regulators and standard-setters). Please also say whether you primarily prepare, use or audit financial information prepared in accordance with IFRS, US GAAP or both.*
- (b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant measure), and whether you have securities registered on a securities exchange.*
- (c) If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public entities, private entities or both.*
- (d) If you are an investor, creditor or other user of financial statements, please describe your function (buy side/sell side/regulator/credit analyst/lending officer/standard-setter), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialize in, if any.*
- (e) Please describe the degree to which each of the proposed new IFRSs is likely to affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors and creditors might explain the significance of the transactions to the particular industries or sectors they follow).*

HKAB's response: The Hong Kong Association of Banks ("HKAB") was created by The Hong Kong Association of Banks Ordinance in 1981 and provides a framework for the government of the Hong Kong Special Administrative Region ("HKSAR") to exchange views with the banking sector for the further development of the industry. All fully licensed banks in the HKSAR are required to be members of HKAB and are subject to its rules, HKAB is under the auspices of its member banks, which total in excess of 140 legal entities. HKAB members' financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. As HKAB represents financial institutions, the comments set out in this letter represent HKAB members' collective views as both preparers of financial statements and users of financial statements for credit and investment analysis purposes.

Question 2

Focusing only on those projects included in the table below:

Project	Transition Method
<i>Consolidation</i>	<i>Limited retrospective</i>
<i>Fair value measurement</i>	<i>Prospective</i>
<i>Financial instruments (IFRS 9)</i>	<i>Retrospective</i>
<i>Insurance contracts</i>	<i>Limited retrospective</i>
<i>Joint arrangements</i>	<i>Limited retrospective</i>
<i>Leases</i>	<i>Limited retrospective</i>
<i>Post-employment benefits / defined benefit plans</i>	<i>Retrospective</i>
<i>Presentation of items of other comprehensive income</i>	<i>Retrospective</i>
<i>Revenue from contracts with customers</i>	<i>Retrospective</i>

- (a) Which of the proposals are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt?

HKAB's response: We believe that the proposed IFRSs on *Leases*, *Revenue from Contracts with Customers*, *Insurance Contracts* and *Financial Instruments* will require significant effort to implement.

- (b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of these costs? What is the relative significance of each cost component?

HKAB's response: We anticipate that the costs of implementation will be significant, including technology costs as well as internal and external staffing. The implementation phase will require significant project management resources. The ongoing reporting efforts for some IFRS (e.g., *Leasing* and *Amortised Cost and Impairments*) may require permanent staffing additions. The scope of the proposed changes in some cases is sweeping and will necessitate extensive training of both financial and non-financial personnel, changes to accounting processes (including charts of accounts and reporting formats), upgrades to technology infrastructure, and changes to accounting policies and procedures. In addition, terms of contracts and agreements will need to be reviewed to assess the impact on covenants and other compliance provisions. The impact on financial ratios and other business metrics will need to be determined with appropriate changes in communications with investors, analysts and other external parties.

Question 3

Do you foresee other effects on the broader financial reporting system arising from these new IFRS? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

HKAB's response: We believe that the proposed IFRS for *Revenue from Contracts with Customers* and *Leases* will create the most significant divergence from existing tax reporting requirements. From a Lessor's perspective, the proposed *Leases* IFRS may result in higher asset balances under the performance obligation approach, resulting in additional capital requirements under existing regulatory capital rules. The interaction of the expected loss approach for impairments and other parts of the financial instruments project, for example, with regulatory capital requirements may be complex. This is particularly the case given the changes to regulation of financial institutions under Basel III which are expected over the next few years and may interact in different ways with accounting standards. Given the significant estimation requirements in many of the proposed standards (and the probability weighted outcome approaches for *Revenue from Contracts with Customers* and *Impairments*), auditing approaches may need to change to better identify the auditors' responsibilities when evaluating management's judgments about future events.

Question 4

Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

HKAB's response: With the exception of the proposed rules for *Amortised Cost and Impairments* and *Insurance Contracts*, we have previously stated our general agreement with the proposed transition methods. However, for the IFRSs on *Leases*, *Revenue from Contracts with Customers*, and *Financial Instruments*, we believe that retrospective application will be a significant burden on preparers and will greatly reduce the effective time for implementation of these standards because of the need to collect comparative data (and run parallel systems to comply with the requirements of IAS 1 and IAS 8). Accordingly, we consider that some form of relief may be necessary in the form of special transition provisions for certain IFRS. For example, we have concerns regarding the retroactive application to long-term contracts, which might require the preparer to recalculate revenue for a number of years prior to the earliest date presented in the financial statements in order to appropriately calculate revenue for the periods presented.

We have commented previously on the proposed transition requirements for *Amortised Cost and Impairment*, and we believe only a few entities will have the necessary information to determine a revised EIR as proposed under the exposure draft. We have also commented previously on the proposed transition requirements for *Insurance Contracts*. We firmly believe that a residual margin does exist on the transition date and as such should be carried forward. We urge the Board to consider the transition arrangements under IAS 8, which would require a full retrospective application or an application from the earliest date possible if a full retrospective application is impractical.

Question 5

In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for Views:

- (a) *Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).*

HKAB's response: We generally believe that the single date approach is preferable for projects that have a pervasive impact on the financial statements. Transitioning on a single date for all such IFRS would provide a more stable platform for users of financial statements. We believe that the changes associated with the following proposed IFRS would have a pervasive impact and should be transitioned on a single date: *Revenue from Contracts with Customers, Leases, Insurance Contracts, Financial Instruments, and Fair Value Measurements.*

We believe that the proposed IFRSs on *Consolidations and Joint Ventures* could also have a pervasive impact on financial statements; however, the impact of consolidation or non-consolidation can be more easily described and quantified. Consequently, we would not object to these two IFRSs having the same implementation date but one that is sequential to other standards.

Other proposed IFRSs would represent more contained changes to financial statements and could be implemented as the standards are finalized with appropriate transition periods prior to their effective dates. In addition, we note that certain of the proposed IFRS mandate specific presentation or disclosure requirements on the face of the financial statements. The IASB has on its agenda a project on financial statement presentation. We believe that any changes to the face of the financial statements should be considered in connection with the financial statement presentation project regardless of the dates on which any of the IFRSs become effective.

- (b) *Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why?*

HKAB's response: For those projects that we have identified as candidates for a single effective date, we believe that the mandatory effective date should be no earlier than for annual periods beginning on or after 1 January 2015, and this is on the basis that there is no requirement to restate comparatives (see our response to Question 4 above).

- (c) *Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IFRSs.*

HKAB's response: As discussed above, we believe that *Post-employment Benefits/Defined Benefit Plans* and *Presentation of Items of Other Comprehensive*

Income should be implemented sequentially. Given that most of the information necessary to implement such changes should be readily available to most reporting entities, a transition date that is at least two year from the date a final IFRS is issued should be sufficient. Should the IASB decide to implement *Consolidations* and *Joint Ventures* sequentially, we believe that a transition period of two years should be sufficient to allow time to assemble information for newly consolidated entities.

- (d) *Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.*

HKAB's response: We consider that the approach we have described in our responses above would be operationally feasible.

Question 6

Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

HKAB's response: Users of financial statements are concerned with having a stable accounting platform. We believe that prohibiting early adoption will increase comparability across reporting entities and contribute to such a stable platform.

Question 7

Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

HKAB's response: We agree that the IASB and FASB should require the same effective dates and transition methods. We believe that this should be viewed as part of the objectives of convergence.

Question 8

Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRS? Why, or why not? If yes, what should those different adoption requirements be, and why?

HKAB's response: As a pragmatic matter, we do not object to a first time adopter of IFRS having the option to early adopt a final standard that has not yet become effective as of the date of their IFRS adoption.