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Mr. Steve Ong
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37/F., Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Dear Steve,

IASB Exposure Draft ED/2011/2 Improvements to IFRSs (the "Exposure Draft")

I refer to your letter dated 2 August 2011 on the above to our Mr. Mark Dickens which has been passed to me for my attention.

We have completed our review of the Exposure Draft. The proposed amendments are aimed at clarifying five IFRSs and to remove unintended inconsistencies.

Our comments on the Exposure Draft are set out below.

<u>General</u>

We understand that the IASB's annual improvements process provides a mechanism for non-urgent amendments to standards. We believe that inconsistencies between standards could be minimised if there is a more robust process for checking for inconsistencies. We believe that it would be worthwhile for the IASB to consider how it could further improve its vetting processes before new or amended standards are released.

We also believe that thorough field testing and other impact assessments by the IASB during the standard setting process are fundamental in the development of high quality accounting standards as they assist in identifying possible conflicts between IFRSs and other practical implementation issues. A robust process should ensure that difficulties in interpretation and application, and also matters included in the annual improvement exercises, are kept to a minimum.

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IFRS 1 "First-time adoption of international financial reporting standards"

The proposed change highlights the fact that the reference to "first-time" in the standard raises interpretation issues. The IASB should perhaps reconsider the standard to apply to whenever IFRS is adopted rather than first-time adoption which normally results in a change of accounting policies adopted by the entity.

The proposed change concerning borrowing costs raises the issue of the restatement of comparatives and the IASB may wish to consider developing principles on exemptions from restatements that would be applied consistently across all its standards. For example, the requirements in paragraphs (a) and (b) on page 10 of the Exposure Draft is topic specific.

IAS 1 "Presentation of financial statements"

We note that paragraphs 40A to 40C are new and paragraph 40A of IAS 1 will read as follows (with words underlined for emphasis):-

> *"An entity shall present an additional statement of financial position as at the beginning of the required comparative period if it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements."*

Although the underlined words also exist in paragraph 10(f) of the current IAS 1, the IASB may wish to further describe clearly which "reclassifications" warrant the preparation of the additional third statement of financial position which would be onerous. We believe that the additional statement of financial position would only be warranted where the amounts involved are material and/or where the reclassification results in a change in accounting policy that is applied retrospectively.

The IASB may also wish to reconsider whether the amendments should be made to IAS 8 "Accounting policies, changes in accounting estimates and errors" rather than IAS 1 as IAS 8 currently deals with disclosures of retrospective adjustments required due to changes in accounting policies and material errors.

The IASB should also take the opportunity to clarify the meaning of a "complete set of financial statements" in the circumstances where the annual report of the reporting entity includes combined "group" financial statements and the financial statements of the entity itself. The interpretation impacts on how the audit report is worded, especially when a modification or qualification, if given, relates only to the group.

We note that one of the amendments to IAS 1 is intended to align it with changes made to the Conceptual Framework which has been amended to deal with the new objective of "financial reporting" which supersedes the objective of "financial statements". In our previous letter to you dated 7 June 2011 we advised that "financial reporting" is much wider in scope than "financial statements". We indicated that the IASB should consider this carefully as it will impact on the scope of its work and thus its priorities. We note that all the standards issued by the IASB to date relate to "financial statements" rather than the wider term "financial reporting" which could include other financial reporting matters.

IAS 16 'Property plant and equipment"

In the revised paragraph 8, we would suggest that the words *"during more than one period"* should be replaced by *"for more than one annual accounting period"*.

In the proposed new paragraph 81G, there is no indication whether a change should be made retrospectively and we would suggest that the wording should be made clearer.

IAS 32 "Financial Instruments: Presentation"

Although paragraphs BC1 to BC3 on page 27 of the Exposure Draft explain the reason for the change, we believe that the proposed new paragraph 35A to the standard is still unclear. To make it clearer, it would be useful to refer to the relevant specific paragraphs of IAS 12 and include a simple illustrative example. Moreover, if the intention is that the disclosures are to be presented "gross" rather than net of taxes, this should be clearly explained.

We believe that the key cause of interpretation difficulties is because of the wording used in paragraph 35, which is proposed to be amended to the following:-

> *"Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument shall be recognised ~~debited~~ by the entity directly ~~to~~ in equity~~, net of any related income tax benefit~~. Transaction costs of an equity transaction shall be accounted for as a deduction from equity~~, net of any related income tax benefit~~."*

We believe that the three sentences in paragraph 35 are addressing three separate issues and each should be dealt with separately. For example, we understand that the first sentence relates primarily to income/gains arising from financial instruments held or sold by the reporting entity but the second sentence appears to deal with distributions made by the reporting entity to holders of shares issued by the reporting entity.

We believe that the IASB should adopt a drafting principle that the wording of standards should be very clear and self-explanatory and readers should not be required to refer elsewhere, such as to the "Basis for Conclusions", to understand the intent and meaning.

IAS 34 "Interim financial reporting"

We note that the proposed amendment to paragraph 16A(g)(iv) of IAS 34 indicates that the disclosures will be required *"if such amounts are regularly provided to the chief operating decision maker"*. We believe that the "if" indicates that the disclosure is conditional and these should not be included in standards. Only disclosures deemed mandatory should be included.

We would suggest that the IASB should reconsider the wider principle to be adopted in determining what disclosures should be set out in accounting standards. We note that the IASB has asked the New Zealand Institute of Chartered Accountants and the Institute of Chartered Accountants of Scotland to carry out a project with a view to recommending an approach to reduce the volume of disclosures in financial statements. The recommendation based on this research, published in July 2011, is that disclosures should be made in financial statements only if the information is material, that is, the disclosure will be useful and relevant to existing and potential investors in making decisions. We believe that the IASB should consider the research recommendations but the disclosure principle adopted should not override disclosures mandated by laws and regulations.

We hope that the above comments are useful.

Yours sincerely,
For and on behalf of
The Stock Exchange of Hong Kong Limited

Colin Chau
Senior Vice President
Listing Division

CC/ESA/el

c.c. Mr. Mark Dickens JP – Head of Listing