From: Steve Ong [mailto:SteveOng@HKEX.COM.HK]
Sent: Tuesday, July 10, 2012 7:01 PM
To: Chris Joy; Winnie Chan
Cc: ComMem-DICKENS Mark; Elce Lee
Subject: IASB Exposure Draft of Annual Improvements to IFRSs 2010-2012 cycle

Dear Chris and Winnie,

IASB Exposure Draft of Annual Improvements to IFRSs 2010-2012 cycle

I refer to the HKICPA Invitation to Comment on the subject matter and as the HKEx representative member on the HKICPA Financial Reporting Standards Committee provide the following comments on the proposed Annual Improvements 2012:

The proposed amendments to 11 standards are on the following specific areas:

(i) IFRS 2 – Definition of "performance condition" and "service condition"
(ii) IFRS 3 – Classification and measurement of contingent liability
(iii) IFRS 8 – Disclosures on aggregation and reconciliation to total assets
(iv) IFRS 13 – Fair Value Measurement
(v) IAS 1 – Current/non-current classification of liabilities
(vi) IAS 7 – Classification of capitalized interest
(vii) IAS 12 – Recognition of deferred tax assets for unrealized losses
(viii) IAS 24 – Extension of "related party" definition
(ix) IAS 36 – Harmonization of disclosures related to recoverable amount
(x) IAS 38 and IAS 16 – Proportionate restatement of accumulated amortization (depreciation) upon a revaluation

1) In relation to IFRS 2, I support the proposed amendments to define a "performance condition". The amendment would clarify the basis on which a "performance condition" can be distinguished from a "non-vesting condition". Furthermore, IFRS 2 would also be amended to clarify that any failure to complete a specified service period, even due to the entity's termination of an employee's employment, would be a failure to satisfy a service condition.

2) In relation to IFRS 3, I support the proposed amendments to enhance consistency in the classification and measurement of contingent consideration such that when a contingent consideration is a financial instrument, classification as liability or equity would be determined by reference only to IAS 32 rather than to any other IFRSs. Contingent consideration that is classified as an asset or liability would always be subsequently measured at fair value in accordance with IFRS 9.

3) In relation to IFRS 8, I support the proposed amendments as they will improve the understandability of financial information, as the standard would be amended to explicitly require the disclosure of judgments made by management in applying aggregation criteria. Furthermore, proposed amendments would also clarify that the reconciliation of the total reportable segments' assets to the entity's assets is only required if a measure of segment assets is regularly provided to the entity's chief operating decision maker. This align the disclosure requirements with those for segment liabilities. In this regard, it may be useful to remind entities that they are required first to comply with the overarching principles in IFRS 8 in providing disclosures on the aggregation of reporting segments.

4) In relation to IFRS 13, I support the proposed amendments as it would clarify that the Board did not intend to remove an entity's ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, if the effect of discounting is immaterial. The practical expedient for measuring short-term receivables and payables is still available.

5) In relation to IAS 1, I agree with the proposed amendments to clarify that a liability is classified as non-current if an entity expects, and has the discretion, to refinance or roll over an obligation for a least twelve months after the reporting period under an existing loan facility with the same lender, at the same or similar terms. This would provide enhance guidance on the classification of liabilities which is useful for preparers.

6) In relation to IAS 7, I agree with the proposed amendments such that in the statement of cash flows, the classification of interest that is capitalized in accordance with IAS 23 would follow the classification of the underlying asset to which those payments were capitalized. For example, interest paid that is capitalized in the cost of PPE would be classified as an investing activity whereas interest paid that is capitalized in the cost of inventory would be classified as an operating activity.

7) In relation to IAS 12, I support the proposed amendments to clarify how an entity recognizes deferred tax assets for unrealized losses. If tax law restricts the use of tax losses to income of a certain type, the entity assesses whether it expects sufficient taxable income of that type to recognize a deferred tax asset. However, the IASB should be mindful that it is again, as on many instances, addressing a relatively narrow issue of the recognition of deferred tax assets in relation to debt securities that are classified as available-for-sale. These proposed amendments potentially could cover a much wider and more complex range of circumstances.

8) In relation to IAS 24, I support the proposed amendments as they will result in improved disclosures. The definition of a "related party" would be extended to include a management entity that provides key management personnel services to the reporting entity. The amendments are intended to clarify that the disclosure requirements on transactions are extended to require separate disclosures of transactions for the provision of key management personnel services and that the key management personnel compensation that is provided through management entities is excluded from the disclosure requirements on compensation of key management personnel in order to prevent duplication. This clarifies that the reporting entity would not be required to "look through" the management entity and disclose compensation paid by the management entity to individuals providing the services.

9) In relation to IAS 36, I agree with the proposed amendments to clarify the disclosure requirements when there has been a material impairment loss or reversal in the period. The proposed

amendments would align the disclosure requirements that are applicable to fair value less costs disposals and value in use. Specifically, the proposed amendment would require disclosure of the discount rate used in the measurement of fair value less costs of disposal when a present value technique is used.

10) In relation to IAS 38 and IAS 16, I agree with the proposed amendments to clarify the requirements for revaluation method in both IAS 38 and IAS 16. Given that it was reported that practice differed in the computing of accumulated depreciation for an item of PPE that is measured using the revaluation method in cases where the residual value, the useful life or the depreciation method has been re-estimated before a revaluation, the proposed amendments would reduce diversity in practice.

In summary, generally I am supportive of the 2012 proposed amendments. However, I would like to draw to your attention that we should all be mindful that since 2008, some 50 amendments affecting the whole suite of IFRSs have been issued as Annual Improvements, with a number of the amendments having a very narrow scope. These amendments, whilst they are noted to provide clarification and ensure consistency of practices, would most probably create complexity and confusion amongst preparers and auditors with no large supporting technical resources. I would therefore recommend that the IASB should expedite the completion of the Conceptual Framework project and the Disclosure Framework project so that standards can be more principles-based with clear rationale rather than continuously having large numbers of improvements amendments to address diversity in practice resulting in more rules, further interpretations if scope is narrow, creating further diversity and complexity to IFRSs.

I hope my above comments are useful. Should you require any further clarification, please let me know.

Thanks.

Kind regards,
Steve

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