

From:
Sent: Friday, July 20, 2012 8:26 AM
To: Chris Joy; Winnie Chan
Cc:
Subject: IFRS Foundation Invitation to Comment on IASB and IFRIC Due Process Handbook

Dear Chris and Winnie,

IFRS Foundation Invitation to Comment on IASB and IFRIC Due Process Handbook (HKICPA Due date 1 August 2012)

Thank you for the HKICPA letter dated 4 June 2012 on the subject matter to our Mr. Mark Dickens, Head of Listing, which has been passed to me for my attention as the HKEx representative member on the HKICPA Financial Reporting Standards Committee.

I have the following observations and comments for your kind consideration:

- 1) It is my understanding that the Trustees of the IFRS Foundation, responsible for the governance and oversight of the IASB, have proposed this updated version of the IFRS Foundation Due Process Handbook. The Handbook describes the steps followed by the IASB in developing or revising IFRSs, required or permitted for use by companies in more than 100 countries. Although previous revisions have been made to the handbook, this is the first time a major review has been undertaken since 2006. The revised Handbook fully incorporates the necessary due process enhancements recommended by the recent Monitoring Board Governance Review and Trustees' Strategy Review, as well as recommendations from the Trustees' Review of the Efficiency and Effectiveness of the IFRS Interpretations Committee.
- 2) The proposed revisions to the Handbook are to:
 - (a) consolidate the due process requirements of the IASB and the IFRS Interpretations Committee, in addition to the protocols for due process oversight by trustees, into a single document.
 - (b) include a more extensive discussion of the process of assessing the likely effects of an IFRS.
 - (c) propose a methodology for the completion of post implementation reviews.
 - (d) reflect the ability of the Monitoring Board to refer urgent issues for consideration by the IASB.
 - (e) include consideration of due process requirements related to the extensive program of outreach activities that is now routinely conducted by the IASB as part of its standard-setting activities.
 - (f) incorporate other enhancements to the IASB's due process resulting from the more active dialogue with the Trustees' Due Process Oversight Committee.
- 3) I would encourage the HKICPA FRSC to revisit the previous submissions it had made on this topic, namely,
 - (a) Submission dated 8 April 2011 on the IFRS Foundation Monitoring Board's review of the IFRS Foundation's Governance;
 - (b) Submission dated 22 July 2011 on the IFRS Foundation Report of the Trustee's Strategy Review; and

(c) Submission dated 24 February 2011 on the Status of Trustee's Strategy Review

to ensure that key points that the HKICPA had raised previously are taken up and if not, to consider whether it should be repeated in the latest proposed submission.

- 4) In relation to paragraph 3.16 on meeting votes and the ballot process, it is noted that for a supermajority of the IASB members, requires only 9 members ballot in favor of the publication of a document if the IASB has 15 members or 10 members in favor of the IASB has 16 appointed members. HKICPA FRSC had always held the view that a 40% dissenting vote still indicates that there is legitimate cause for concern that the standard is in some way deficient or weak. I am personally still holding the same view as the HKICPA FRSC. Furthermore, the HKICPA FRSC also held the view that it is important that IASB members do not use their status of being independent from specific interest groups as a justification for taking technical positions and making changes which do not have broad support. Different accounting solutions can be equally high quality (if they are consistent with the IASB Conceptual Framework), and one that is most acceptable to the public at large is usually the one that should be retained. IASB have the objective of issuing "globally accepted standards" and given that, well accepted and well understood standards (if they are consistent with the IASB Conceptual Framework) are likely to be better applied in practice both by preparers and users. Accordingly, HKICPA FRSC may wish to reiterate these comments again.
- 5) In relation to paragraph 3.37 on education sessions, it is noted that they are open to the public. However, it would be useful if they could be webcast as well so that participants from the AOSSG regions can view them online. In this regard, IASB should also consider to develop more online training modules on new standards issued like the online modules it has developed for *IFRS for SMEs* as this would be extremely useful for practitioners in smaller firms and preparers who work in the SME sector, covering small to mid-sized listed companies adopting IFRS.
- 6) In relation to paragraph 3.39 on assigned IASB members to a specific project, it is noted that recommendations made in staff papers do not necessarily have to reflect the views of the assigned IASB members and the staff still have ultimate responsibility for the board papers and the recommendations they contain. The HKICPA FRSC may wish to consider whether this is the right way forward given recent experiences. There have been suggestions that surely, the IASB members assigned to the project should take full charge and be responsible for the project such that there is more accountability and IASB members bringing to the table their experience and expertise.
- 7) In relation to paragraph 3.66 on comment letters, it is noted that the staff does not normally provide the IASB with any numerical analysis of how many respondents expressed a particular view because it is the strength of the analysis, and the evidence supporting the analysis that is important. In general, this is acceptable but a numerical analysis may also provide an alternative view of support of the proposals from commentators from various jurisdictions. Accordingly, a simple numerical analysis that can group commentators under

regions such as AOSSG, US, EU and others like Big 4 firms, Corporates, SMPs and others, could be useful.

- 8) In relation to paragraph 3.70 on undertaking fieldwork to gain a better understanding of how a proposal is likely to affect those who use and apply IFRSs, it is noted that undertaking fieldwork is not mandatory, but if the IASB decides not to do so, it must explain why and inform the DPOC. HKICPA FRSC may wish to consider whether undertaking fieldwork should be made mandatory given the huge impact most of the proposals have on users and preparers, like the recent 4 large projects (including the Lease project), and provide the example that mandatory field testing is adopted by the motor industry to ensure that new vehicles will actually work as designed and are useful and safe. Furthermore, the cost of implementing some of the suggested proposals on the Lease project is widely known to be substantial but the new information produced may fail to provide sufficient benefits and useful information to readers of financial statements. These are valid arguments given that IFRSs now have wide implications as they affect a larger number of stakeholders as well as the financial stability of the capital markets and the economies that adopt the standards.
- 9) In relation to paragraph 7 on Interpretations, IASB should ensure that recent comments reported such that IFRIC should be more responsive to address issues on a timely basis, should be furthered considered and addressed in this section. More resources should be allocated to this important function to ensure that whatever changes implemented will be effective such that the creditability of the IFRS Foundation and IFRIC is enhanced.

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

Thanks.

Kind regards,
Steve

Steve Ong, FCA, FCPA
Vice President, Head of Accounting Affairs (Listing)
HKEx