Jenny Ng

Subject: FW: HKICPA Invitation to Comment on IASB Exposure Draft of Equity Method in Separate Financial Statements

---

From: Steve Ong [mailto:SteveOng@HKEX.COM.HK]
Sent: Saturday, December 21, 2013 1:08 PM
To: Simon Riley
Cc: Committee-FRSC; Winnie Chan; Ambrose Wong; David Graham; Grace Hui; LIAA
Subject: HKICPA Invitation to Comment on IASB Exposure Draft of Equity Method in Separate Financial Statements

Dear Simon,

HKICPA Invitation to Comment on IASB Exposure Draft of Equity Method in Separate Financial Statements (Proposed amendments to IAS 27) (Due date 3 January 2014)

Thank you for the HKICPA letter dated 16 December 2013 on the subject matter addressed to our Mr. David Graham, Chief Regulatory Officer and 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 am pleased to note that the Exposure Draft is not related to an HK issue. However, it relates to some countries where local laws and regulations require separate financial statements to use the equity method of accounting for investments in subsidiaries, joint ventures and associates. In this regard, IFRS does not currently permit this. In most cases, the use of equity method would be the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with local regulations.

These affected countries have therefore asked the IASB to restore the option (it was previously eliminated by the IASB in 2003) to report investments in associates, joint ventures and subsidiaries using the equity method in their separate financial statements.

The proposal would create a third option, allowing companies to account for investments under the equity method, in accordance with IAS 28. Currently, companies preparing separate financial statements under IFRS have to elect to measure investments in subsidiaries, associates and joint ventures either at cost or in accordance with the financial instruments standards.

Impact of proposal for third option may increase in diversity in reporting practice

This new option would mean that in those countries with the abovementioned laws and regulations, more companies would apply IFRS in their separate financial statements, which is good news. However, on the other hand, the introduction of a third option may increase diversity in reporting practice, something which the IASB is trying to eliminate.

A balance has therefore to be made. Given that the all members of the board of the IASB supported this proposal, I would also have no strong objection and would support the proposal to bring in more companies and jurisdictions into the IFRS arena. However, we should take this opportunity to remind the IASB in the HKICPA comment letter of the need to consider a complete review of equity accounting. In this regard, it is encouraging to note that this is already included as one of the IASB's research priorities.

Thanks.

Kind regards,
Steve

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