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22 July 2011

Tom Seidenstein  
Chief Operating Officer  
IFRS Foundation  
30 Cannon Street,  
London EC4M 6XH,  
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Dear Mr. Seidenstein,

**[IFRS Foundation Report of the Trustee's Strategy Review – IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade \(Trustee Report\)](#)**

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments for the consideration by the IFRS Foundation Trustees.

It is our understanding that the Trustees are seeking views of stakeholders for a second time, in addition to the consultation completed earlier in 2010, on the strategy review that addressees four strategic fronts — the IFRS Foundation's mission, governance, the standard-setting process, and financing of the IFRS Foundation through this Trustee Report. Our submission on the Trustees' first consultation can be viewed at

[http://www.hkicpa.org.hk/file/media/section6\\_standards/standards/FinancialReporting/s-ubmission-pdf/2011/future-strategy.pdf](http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/s-ubmission-pdf/2011/future-strategy.pdf).

The salient features of our comments on this second consultation, certain matters of which were raised during the Trustees' Strategy review Roundtable in Hong Kong on 8 June 2011, are:

- **On mission** – We believe that it is important for the Trustees to clearly define the scope of its work by establishing clear boundaries of information that will be presented in "financial reporting" vis-à-vis "financial statements". This will have an important impact on the work undertaken by the Foundation and on those responsible for their preparation, and whether the information is or should be subject to audit.
- **On governance** – We recommend that the Monitoring Board and the Trustees develop a joint communication on the respective responsibilities of each party as there is still a lot of confusion amongst stakeholders as to the exact roles of the Monitoring Board and the Trustees. Such communication would be an important step in enhancing an understanding of their respective roles and avoiding the overlap of responsibilities.



- **On process –**

- Trustee oversight of the IASB's due process

We welcome the proposed greater involvement of the Trustees in the IASB's due process. We also believe that the Trustees and the IASB must ensure that thorough field testing is a "formal" step in the standard setting process in view of its importance and this should be carried out at a very early stage before a standard or preferably an exposure draft is finalised and issued.

- Refine the scope of the IFRS Interpretations Committee's Activities

We recommend the Trustees to revise the responsibilities of the IFRS Interpretations Committee, especially its role in the standard setting process. We believe its review of discussion papers and exposure drafts before they are published for public comment is perhaps more important. Its role should also include some post implementation reviews so that they obtain direct hands on knowledge of the practical aspects and problems arising from interpreting and implementation of the standards.

- Agenda setting and the importance on development of conceptual framework

We believe that fundamental changes to any existing standards should not be made before these changes have been debated at the conceptual level first. The IASB should refrain from making any further substantial changes to individual standards until completion of the review of the conceptual framework.

- Convergence concern – cooperation with FASB

We believe that the main emphasis of the IASB should be on the development and adoption of high quality global financial reporting standards. Sufficient time needs to be allowed to carefully adjust the proposals in the exposure drafts where needed, making them fully operational, and to ensure that the proposals result in better standards and improve financial reporting.

There are occasions that the standards separately proposed by the IASB and FASB do not result in converged financial reporting standards. We consider that the IASB and FASB should resolve the differences in financial reporting standards and seek more cooperation such that a single set of global accounting standards can become a reality.

- Voting benchmark of the IASB

In our submission to the IFRS Foundation on the Trustee's Strategy Review dated 24 February 2011, we expressed our concern on only nine votes out of the fifteen IASB members is required to approve a new or revised standard. We are disappointed that in the report the Trustees do not appear to have addressed introducing a higher percentage supporting vote and would request that the Trustees reconsider this matter.



- "Auditability" and usefulness of information

We believe that the Trustees' strategy should revisit the meaning of the key terms "material" and "true and fair view" as these are fundamental in the development of high quality accounting standards. We would also suggest that the Trustees should ensure that the IASB co-ordinates its efforts with the IAASB so that the two bodies have a similar framework or view on "materiality" and "true and fair view" when developing their separate standards.

- Dedicated research capacity

We welcome the proposal by the Trustees to establish such a research capacity. We consider that the research function proposed by the Trustees would provide a sound basis for developing the future agenda of the IASB and, in particular, could prove invaluable in making progress on the conceptual framework.

- Post-implementation review

We acknowledge the importance of reviews in order to enhance consistency of IFRS implementation and recommend the IASB to reconsider the following factors as part of the post-implementation reviews:

- Joint effort by the IASB and FASB
- Timing for the review of new standards and consideration of pre-implementation review
- Post implementation review of other standards
- Involvement of national standard-setters

- The lack of linkage between the concept of realization for distribution purposes and concept of income recognition under IFRSs

In our submission to IFRS Foundation on the Trustee's Strategy Review dated 24 February 2011, we expressed our concern that the concept of income recognition under IFRSs is increasingly unrelated to the concept of realization, which makes the performance statement less useful for directors as a basis for determining the level of dividends to be proposed and for investors to make assessments as to the company's dividend trends and policy. We are disappointed that this issue has not been mentioned in the Trustees' comments on the scope and focus of the IASB's work.

- **On financing** –We believe the Trustees could improve the transparency of its budget setting process and disclose in reasonable detail its annual budget and how the funds will be used. This would support its funding efforts and at the same time may assist in increasing public appreciation and confidence in the Foundation's work.



--- Details of the above are set out in the Appendix.

If you have any questions on our comments, please do not hesitate to contact me at [ong@hkipa.org.hk](mailto:ong@hkipa.org.hk).

Yours sincerely,

Steve Ong, FCA, FCPA  
Director, Standard Setting



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

**IFRS Foundation Trustees Report of the Trustees' Strategy Review - IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade**

**Section A    Mission: defining the public interest to which the IFRS Foundation is committed**

**(i)    *"Financial reporting" versus "financial statements"***

The Trustee Report states that the IFRS Foundation's mission as the standard setting body is to develop financial reporting standards that provide a faithful representation of an entity's financial position and performance. Page 8 of the Trustee Report further states that the global standards it develops "require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions".

In formulating its long term strategy, it is important that the Trustees clearly define the scope of its work. We believe that "financial reporting" is significantly wider in scope than "financial statements" and the Trustees should establish clear boundaries of information that will be presented in "financial reports" vis-à-vis "financial statements" as this will have an important impact on the work undertaken by the Foundation and on those responsible for their preparation, and whether the information is or should be subject to audit. The IFRS Foundation may wish to primarily focus its attention on "financial statements" rather than the broader responsibilities of "financial reporting".



## Section B Governance: independent and publicly accountable

### (i) *Clarity over the respective roles of the Trustees and the Monitoring Board*

It is stated under the heading B2 of the Trustee Report that "The existing three-tier structure (Monitoring Board, Trustees, IASB) is appropriate for the organisation's mission. Within that governance structure, the Monitoring Board, the IFRS Foundation and the IASB should enhance their interaction and procedures where appropriate to reinforce the principles of transparency, public accountability and independence. In doing so, the roles and responsibilities of each element of the organisation's governance should be clearly defined."

The Institute is aware that the institutional aspects of governance, particularly the composition and the respective roles and responsibilities of the Monitoring Board, Trustees and IASB are within the scope of the Monitoring Board's review whereas the Trustee Report (as stated in the document) addresses mainly the IFRS Foundation's mission and operations, the Trustees' activities, the IASB's due process, and financing. We also note that the Trustees are committed to co-ordinating the conclusion of their review with the IFRS Foundation Monitoring Board, in order to arrive at an integrated set of proposals on the basis of the proposals (as contained in this Trustee Report) and the final decisions reached by the Monitoring Board following its separate public consultation.

We are supportive of the above. However, we would like to highlight that it is important to clarify the respective roles of the Trustees and the Monitoring Board. Based on the current structure of the IFRS Foundation, we have concerns that the structure does not appear to provide clear lines of responsibilities and accountability. This may be due to the way the structure is depicted in the diagram (under the heading "How we are Structured" of the IFRS Foundation "Who We Are and What We Do" document - <http://www.ifrs.org/NR/rdonlyres/F9EC8205-E883-4A53-9972-AD95BD28E0B5/0/WhoWeAreEnglishMay2011.pdf>) and the use of terms such as "inform". A structure along the lines of a corporate structure could be considered by the IFRS Foundation to clearly show the reporting lines and to delineate the separate roles of strategy development and overall governance, production of detailed accounting standards, research and development and other ancillary administrative and support functions such as a separate Compliance and Monitoring function, which would be responsible for identifying practical issues encountered in implementation and use of the Foundation's standards.

We would recommend that the Monitoring Board and the Trustees develop a joint communication on the respective responsibilities of each party as there is still a lot of confusion amongst stakeholders as to the exact roles of the Monitoring Board and the Trustees. Such communication would be an important step in enhancing an understanding of their respective roles and avoiding the overlap of responsibilities.



**Section C Process: ensuring that its standards are of high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world**

**(i) *Trustee oversight of the IASB's due process***

In relation to the IASB's due process, the following is stated under the heading C2 of the Trustee Report:

"The Trustees believe that stakeholders' confidence in the standard-setter process will improve if the regular interaction between the Trustees' Due Process Oversight Committee and the IASB includes a focused, regular and systematic review of the due process of current projects... Before finalising a new standard or major revision of an existing standard, the IASB should make a presentation to the Trustees' Due Process Oversight Committee explaining how it has complied with each step of the required due process ... Following the IASB's presentation and before conclusion of the IASB's project, the Due Process Oversight Committee would need to review and discuss compliance with the IASB's procedures and report on their oversight."

The Institute welcomes this proposed greater involvement of the Trustees in the IASB's due process. In particular we agree that introducing a specific due process review prior to the finalisation of any new standard or major revision is a significant enhancement, as we anticipate that it will introduce a useful check and balance to the technical independence of the IASB, which will focus on how the IASB has responded to views expressed during the public consultation phase and sought to issue standards which are both high quality and practical.

We also believe that the Trustees and the IASB must ensure that thorough field testing is a "formal" step in the standard setting process in view of its importance and this should be carried out at a very early stage before a standard or preferably an exposure draft is finalised and issued. More resources should be allocated to this step to ensure field testing is carried out properly and effectively. In addition, we believe the Foundation should carefully re-consider the timing and the effective date on which new standards become mandatory with a view to this being later in some cases, to reduce the compliance burden and confusion to the markets.

**(ii) *Refine the scope of the IFRS Interpretations Committee's Activities***

Under the heading of C4 of the Trustee Report, we note that the Trustees plan to refine the scope of the IFRS Interpretations Committee's activities to ensure consistency of interpretation, without undermining the commitment to a principle-based approach to standard-setting. We would prefer the Trustees to revise the responsibilities of the IFRS Interpretations Committee, especially its role in the standard setting process.

Under the current practice the pre-ballot draft of an IFRS to be released is normally sent to the IFRS Interpretations Committee for a fatal flaw review. We



believe its review of discussion papers and exposure drafts before they are published for public comment is perhaps more important at the pre-ballot draft stage. Its role should also include some post implementation reviews so that they obtain direct hands on knowledge of the practical aspects and problems arising from interpreting and implementation of the standards.

**(iii) *Agenda setting and the importance on development of conceptual framework***

In relation to agenda setting, the following is stated under the heading C3 in the Trustee Report:

"The Trustees recently introduced a requirement to have three-yearly public consultations on the IASB's agenda and priorities. The first such review will take place in 2011.

In undertaking the public consultation, the IASB should actively engage the IFRS Advisory Council and other stakeholders. The Trustees believe that engaging stakeholders in the development of agenda priorities will enable the IASB to address the most pressing financial reporting issues. Furthermore, it will strengthen public confidence in the standard-setting process.

As part of the agenda-setting process and following the public consultation, the IASB should provide a feedback statement explaining how it accounted for the views of the Trustees, the IFRS Advisory Council, the Monitoring Board and stakeholders. As with other elements of the IASB's due process, the IASB will review progress on its agenda-setting process with the Trustees' Due Process Oversight Committee."

The proposed measures by the Trustees are welcomed as they promote a more transparent agenda-setting environment. Having said that, we are of the view that the importance of the conceptual framework should be acknowledged and taken into account in the agenda-setting process and we are concerned that a focus on addressing "the most pressing financial reporting issues" may encourage a continuing agenda of reactive "quick fixes".

We still believe that fundamental changes to any existing standards should not be made before these changes have been debated at the conceptual level first. The IASB should refrain from making any further substantial changes to individual standards until completion of the review of the conceptual framework. We believe that the conceptual framework should be core to the development of accounting standards as this will ensure consistency of specific standards with a single cohesive body of key underlying concepts and principles for financial reporting. It is noted that in certain respects the recently released discussion papers and exposure drafts introduced conflicting concepts and principles, which, if implemented would have led to confusion and the development of rule-based standards rather than principle-based standards.





**(iv) Convergence concern – cooperation with FASB**

It is stated in the Trustee Report that the willingness of the United States to engage in convergence, accept IFRSs for non-US companies and consider possible adoption for US companies is one of the key factors of the success of IFRSs to date.

The Trustee Report has made the following remark on the progress of the convergence project:

"Beginning with the 2002 Norwalk agreement, an intensive and joint convergence programme has been a dominant feature of the IASB's agenda. Importantly, the convergence process has led to improvements of the inherited standards, reduced differences with US GAAP, and the removal of the reconciliation requirements by the US Securities and Exchanges Commission (SEC). At the same time, the United States has yet to make a final decision on adopting IFRSs. A recent SEC staff work plan indicates that the SEC expects to make a determination in 2011 on the use of IFRSs. This determination will have an impact on the consideration of IFRSs by other major economies (eg China, India and Japan) and the growing number of emerging markets that are implementing IFRSs as their chosen accounting standards."

We acknowledge the importance and potential advantages of convergence with US GAAP. However, we believe that the main emphasis of the IASB should be on the development and adoption of high quality global financial reporting standards. As an existing adopter of IFRS, we have been concerned about the undue time pressure the IASB and FASB MoU on convergence has caused and its impact on the quality of the resulting exposure drafts. Sufficient time needs to be allowed to carefully adjust the proposals in the exposure drafts where needed, making them fully operational, and to ensure that the proposals result in better standards and improve financial reporting.

We note that the IASB has proposed substantial changes to IFRSs with the intent to converge with US GAAP. Such proposed changes include but are not limited to changes in the standards on revenue recognition, leases, insurance contracts and financial instruments. There are occasions that the standards separately proposed by the IASB and FASB do not result in converged financial reporting standards. We consider that the IASB and FASB should resolve the differences in financial reporting standards and seek more cooperation such that a single set of global accounting standards can become a reality. Otherwise, there will not be a level playing field despite all the efforts by existing IFRSs adopters to keep up with the constant requests for comment on consultation documents and the resulting changes to financial reporting standards.



**(v) Voting benchmark of the IASB**

In our submission to the IFRS Foundation on the Trustee's Strategy Review dated 24 February 2011, we expressed concern that approval of a new or revised standard requires only nine votes out of the fifteen IASB members. In our view, different accounting solutions can be of equally high quality, and the one that achieve greatest consensus from well-informed commentators is usually the one that should be retained. We are therefore disappointed that in the report the Trustees do not appear to have addressed introducing a higher percentage supporting vote and would request that the Trustees reconsider this matter.

**(vi) "Auditability" and usefulness of information**

The Institute believes that high quality reporting depends on an entity's board and management or those charged with governance. They are responsible for the preparation of financial statements that give a "true and fair view" or equivalent terms such as "present fairly" and "faithful representation".

We believe that whether financial information is reliable and auditable should be two criteria for information to be included in "financial statements" or at least in the "primary financial statements" and supporting detailed explanatory notes. An audit plays an important role in providing an independent view on the reliability of the information. If information is non-auditable, we believe it should normally be placed outside the "financial statements". We note that the International Auditing and Assurance Standards Board (IAASB) has also issued a useful discussion paper on "The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications". The paper raised issues concerning disclosures, whether all required disclosures under IFRSs are material and what disclosures are in fact auditable.

We believe that the Trustees' strategy should therefore revisit the meaning of the key terms "material" and "true and fair view" as these are fundamental in the development of high quality accounting standards. Currently, these terms are not fully discussed and explained. There is only a brief description available on "materiality" (see paragraph QC 11 of Conceptual Framework for Financial Reporting – 2010 version) and paragraph 15 of IAS 1 "Presentation of Financial Statements" only briefly describes what amounts to a "true and fair view" which should be the ultimate goal of information provided in financial statements. Without clarity on the concept of "materiality" and "true and fair view", we believe it will be difficult to apply IFRSs on a consistent basis.

We would also suggest that the Trustees should ensure that the IASB coordinates its efforts with the IAASB so that the two bodies have a similar framework or view on "materiality" and "true and fair view" when developing their separate standards.



**(vii) *Dedicated research capacity***

In relation to dedicated research capacity, the following is stated under the heading C6 in the Trustee Report:

"The IFRS technical staff have no dedicated resource for accounting research to understand how existing standards are operating, to analyse trends of financial reporting and to identify future issues. This is the consequence of limitations on financial resources and the focus on completing the present work programme. The Trustees recommend establishing, or facilitating the establishment of, a research capacity that could draw upon some combination of internal and external intellectual resources, including a more active engagement of the academic community. The Trustees would necessarily seek dedicated, separate financing to support such a research capacity."

The Institute welcomes the proposal by the Trustees to establish such a research capacity. We consider that the research function proposed by the Trustees would provide a sound basis for developing the future agenda of the IASB and, in particular, could prove invaluable in making progress on the conceptual framework.

**(viii) *Post-implementation review***

In relation to post-implementation review, the following is stated under the heading C4 in the Trustee Report:

"The IASB can play an important role through its post-implementation review and, using the IFRS Interpretations Committee, the interpretations process. The IASB is required to undertake post-implementation reviews of new IFRSs, as well as major amendments to IFRSs and major interpretations after at least two full years of implementation, to be completed within three years of the pronouncement's effective date. These reviews were designed to be limited to important issues identified as contentious during the development of the pronouncement and would review any unexpected costs or implementation problems encountered.

The IASB is now about to consider the first standards subject to such a review. The IASB is developing a clear and transparent methodology for undertaking these reviews."

The Institute acknowledges the importance of post-implementation reviews in order to enhance consistency of IFRS implementation. Having said that, we have the following comments on the IASB's post-implementation reviews:

- Joint effort by the IASB and FASB

We are of the view that FASB should also be involved in the review to facilitate consistent understanding of the implementation issues reached by the organisations and that further appropriate joint action can be taken as appropriate.



- Timing for the review of new standards and consideration of pre-implementation review

We consider that carrying out a post-implementation review on new standards or major amendment two years after their mandatory application date may be too late. We consider that the timing for the review should be reconsidered in order to make the review more useful and meaningful. We recommend that the IASB establish a pre-implementation mechanism similar to that which the International Auditing and Assurance Standards Board has adopted to enhance its responsiveness to practical issues of standards adoption.

- Post implementation review of other standards

We suggest that the IASB should carry out post-implementation reviews of some of the older standards that are not under the current work plan but which entities are finding difficult to understand or are difficult to apply in practice. For example: IAS 36 *Impairment of Assets* is commonly viewed as more problematic in practice than IFRS 8 *Operating Segments* and IFRS 3 *Business Combinations* but does not appear to have been subject to any post-implementation review since its issuance.

- Involvement of national standard-setters

We are of the view that the direct involvement by the IASB Technical Staff in the post-implementation review, rather than solely relying on the national standard setters, would better facilitate the IASB Technical Staffs' understanding and consideration of the practical issues. For example, the HKICPA can coordinate and arrange meetings and roundtables between the IASB Technical Staff and the stakeholders by utilizing our established local networks and relationships for Hong Kong.

**(ix) *The lack of linkage between the concept of realization for distribution purposes and concept of income recognition under IFRSs***

In our submission to IFRS Foundation on the Trustee's Strategy Review dated 24 February 2011, we expressed concern that the concept of income recognition under IFRSs is increasingly unrelated to the concept of realization, which makes the performance statement less useful for directors as a basis for determining the level of dividends to be proposed and for investors to make assessments as to the company's dividend trends and policy. Since the extent to which a company has generated distributable profits and has determined whether or not to distribute those profits are key pieces of decision-useful information, we are concerned that it is increasingly becoming necessary to supplement IFRSs performance information with reconciliations or alternative measures of "profit" for distribution purposes.

For example, once IFRS 9 is adopted, companies may need to maintain separate memorandum information on the portfolio of equity securities to



identify realised profits and losses, as neither the "fair value through profit and loss" nor "the "fair value through other comprehensive income" model under IFRS 9 will provide such information. We also see a lack of conceptual consistency in requiring fair value changes on illiquid investment property to be reported within profit or loss, whereas changes in liquid equity securities are reported in other comprehensive income.

Such differences between accounting treatments within IFRSs and the concept of realised profits and losses have led to the development of extensive guidance published by the Institute of Chartered Accountants in England and Wales and Institute of Chartered Accountants of Scotland, and adopted by the HKICPA, on the question of "generally accepted accounting principles for the purposes of determining realised profits and losses". In our view the need for such guidance on how to adjust IFRSs "profit" to arrive at a more useful measure of performance runs the risk of undermining the credibility of IFRSs, particularly where there is no consistent conceptual basis on which the IFRS "profit" has been determined.

We therefore consider that it is important for the IASB to re-focus on the importance of performance statements for users of the financial statements. Such a re-focus should include articulating in the conceptual framework the conceptual difference between "profit" and "other comprehensive income", with due regard to commonly accepted concepts of distributable profits and with a view to reducing the extent of reconciling adjustments to IFRS "profit" that are required to arrive at a consistently prepared measure of "realised" profit.

We are therefore disappointed that this issue has not been mentioned in the Trustees' comments on the scope and focus of the IASB's work, as discussed on page 11 of the Trustee's Report.

**Section D    Financing: ensuring the organization is financed in a manner that permits it to operate effectively, efficiently and independently**

**(i)    *Transparency of the budget setting process and use of fund***

We are pleased that the Trustees recognise the importance and urgency to expand the funding base for the IFRS Foundation. We believe the Trustees could improve the transparency of its budget setting process and disclose in reasonable detail its annual budget and how the funds will be used. This would support its funding efforts and at the same time may assist in increasing public appreciation and confidence in the Foundation's work. To meet its mission to work in the public interest and to encourage the adoption of IFRSs, the Trustees could consider to make its final standards (and not only its discussion papers and exposure drafts) freely available for download from its website.

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