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

Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

5 January 2012

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

IASB Exposure Draft of *Government Loans* (proposed amendments to IFRS 1)

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 on the captioned Exposure Draft. Our responses to the questions raised in your Exposure Draft are set out in the Appendix for your consideration.

We note that the requirements of paragraph 10A of IAS 20, including its transitional relief to existing IFRS preparers was introduced as part of the Annual Improvements issued in May 2008, but no corresponding adjustment was made to IFRS 1 at that time. The proposed change highlights the fact that the process in proposing consequential amendments by the IASB may not have working properly at the time of issuance of the Annual Improvements 2008. We would like to reiterate that before any new or amended standards are released and adopted, the IASB should assess their impact and implications on all existing standards at the time. This step should ensure that all relevant standards that need revision are also appropriately amended.

We also note that paragraphs 50 to 53 of IAS 8 provide a general "impracticability" relief for existing IFRS adopters, which would have specifically addressed the issue raised in BC2 of the proposed amendments to IFRS 1, namely the inability to estimate unobservable fair values without using hindsight. Such a general "impracticability" relief is not included in IFRS 1, and instead the issue appears to be addressed by piecemeal exceptions such as are proposed here. Such a piecemeal approach leads to complexity in IFRS 1 as well as leaving other situations of impracticability unaddressed – for example, it is unclear to us why such relief should only be available in respect of loans at low interest from the government and why it is not, for instance, also available in respect of loans at low interest from related parties.

Therefore, while we are supportive of the IASB's proposal to provide relief to first-time adopters of IFRSs by amending IFRS 1 to permit prospective application of the requirement of IAS 20 to recognize the benefit of a government loan advanced either interest free or at a below-market rate of interest as a government grant, we believe that the IASB should consider whether, as a matter of principle, the "impracticability" relief guidance in IAS 8 should be included in IFRS 1 as a generally available exception from retrospective application of accounting policies. We also believe that the Board should explain in the Basis for Conclusions why retrospective application of IAS 20 should remain an option in some circumstances.

Our detailed comments are set out in the Appendix to this letter.

If you have any questions on our comments, please do not hesitate to contact me at ong@hkicpa.org.hk.

Yours faithfully,

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/WC/jn

Encl.

APPENDIX

Hong Kong Institute of CPAs

Comments on the IASB Exposure Draft of *Government Loans* (proposed amendments to IFRS 1)

<u>Question 1</u>

The Board proposes to amend IFRS 1 so that first-time adopters would be required to apply paragraph 10A of IAS 20 prospectively to loans entered into on or after the date of transition to IFRSs, unless the information needed to apply these requirements to a government loan as a result of a past transaction was obtained at the time of initially accounting for that loan. Do you agree? Why or why not?

We are supportive of the IASB's proposal. We agree with the Board that the requirement to apply paragraph 10A of IAS 20 retrospectively may lead to an entity applying hindsight if it must derive a fair value that need significant unobservable inputs. However, as noted in our covering letter, we believe that this issue is not restricted to government loans and that the IASB should consider whether, as a matter of principle, the impracticability guidance in paragraphs 50 to 53 of IAS 8 should be included in IFRS 1 as a generally available exception from restatement.

<u>Question 2</u>

Do you have any other comments on the proposals?

Paragraph B11 of the ED proposes that an entity *may* retrospectively apply paragraph 10A of IAS 20 'provided that the information needed to apply these requirements to that government loan was obtained at the time of initially accounting for that loan'. We believe that the Board should explain in the Basis for Conclusions why it believes retrospective application of IAS 20 should be optional, given that this reduces comparability of financial information and introduces further complexity in IFRS 1.

~ End ~