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

Our Ref.: C/FRSC

By E-mail and by Post

7 November 2005

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

Attention: Ms. Patrina Buchanan, Project Manager

Dear Sirs,

IASB Draft Technical Correction (DTC) 1 and Proposed Policy on Technical Corrections

The Hong Kong Institute of Certified Public Accountants (the "Institute") welcomes the opportunity to provide you with our comments on the IASB Draft Technical Correction (DTC) 1: *Proposed amendments to IAS 21 – Net Investment in a Foreign Operation.* The Institute would also like to take this opportunity to expand our comments in the Institute's submission to the IASB dated 4 October 2005 on the IASB's Proposed Policy on Technical Corrections.

In general, we support the amendments proposed in DTC 1, as we agree that a monetary item forming part of the net investment in a foreign operation should be able to be denominated in a currency other than the functional currencies of the reporting entity or the foreign operation. The limitation introduced by the 2003 revisions to IAS 21 *The Effects of Changes in Foreign Operations* has created difficulties for many complex groups by changing the composition of their net investments in foreign operations and any associated hedges.

We also support the amendment which clarifies that an investment by an associate of the reporting entity in a foreign operation is not part of the reporting entity's net investment in that foreign operation due to lack of control of the associate's investment. The status of investments by jointly controlled entities is unclear, and we urge the IASB to expand BC 7 to cover the IASB's decision as regards the treatment of an investment by a joint venture.

Whilst we support the IASB's proposals in this case, we are concerned about the classification of the issue as a Technical Correction. The proposed policy on technical corrections defines a Technical Correction as one where the "words in a standard do not properly convey the Board's intention". In our earlier submission, we expressed support for the technical correction policy on the understanding that it intended to address a correction such as the limited adjustment to IFRS 6 *Exploration for and Evaluation of Mineral Resources* and IFRS 1 *First-time Adoption of International Financial Reporting Standards* to ensure that entities are not disadvantaged by what some considered to be an inconsistency between two Standards.

4th Floor, Tower Two, Lippo Centre,
89 Queensway, Hong Kong
香 港 金 鐘 道 89 號 力 寶 中 心 二 座 四 樓

Tel 電話 :(852) 2287 7228
Fax 傳真 :(852) 2865 6776
(852) 2865 6603

Web 網址: www.hkicpa.org.hk
E-mail 電郵: hkicpa@hkicpa.org.hk

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Based on DTC 1, it appears that the IASB intends to use the proposed Technical Correction Policy to change standards with a shorter consultation period when the standard is unambiguous (but the requirements are, presumably, not what the IASB intended). We cannot support the Board's proposed Technical Correction Policy if it is to be used in this way. Users of IFRSs must be able to rely on the words in a standard where those words are clear. In a case like this, preparers may have altered their investments to meet the new unambiguous requirements. It is unreasonable to expect them to change retrospectively and immediately without the normal due process.

In summary, whilst we support the Board's technical solution to the problem created by the 2003 amendments to IAS 21, we do not consider it appropriate to treat the amendments as a Technical Correction. We therefore request the Board to issue the changes as Amendment to IAS 21 in order to avoid creating an inappropriate precedent for a Technical Correction. We also request the Board to review the definition of a Technical Correction to restrict its application to changes to standards only where there is an ambiguity.

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

Yours faithfully,

Stephen Chan
Executive Director

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