BY FAX AND BY POST

Our Ref.: C/UII 10 September 2001

The Standing Interpretations Committee,
International Accounting Standards Board,
30 Cannon Street,
London EC4M 6XH,
United Kingdom.

Dear Sirs,

IASB Standing Interpretations Committee
- Draft Interpretations SIC D28 to D32

In response to the IASB Standing Interpretations Committee's Draft Interpretations SIC-D28 to D32, we are pleased to set out below our comments for your consideration.

- **SIC-D28: Business Combinations - Measurement of Shares Issued as Purchase Consideration**

  We agree with the draft consensus set out in paragraph 4 of SIC D-28. However, we consider that it would be helpful to include in that paragraph a cross-reference to paragraph 6 of IAS 27 where control is defined as the power to govern the financial and operating policies of the acquiree so as to benefit from its activities.

  Although we support the draft consensus set out in paragraph 5 of SIC-D28, we consider that in practice using another price would be appropriate only in very rare circumstances and the consensus should make this clear. We also consider that the consensus should also address the situations where there is a narrow market as set out in paragraph 8 of SIC-D28 and those situations outlined in paragraph 100 of IAS 39, such as where there is an active market or where the trading volume is small.

- **SIC-D29: Disclosure - Service Concession Arrangements**

  We support the proposed disclosures in paragraph 6 of SIC-D29. However, we consider that the scope of the draft interpretation should not be restricted only to services that are normally considered public type services, such as water treatment, bridges and airports. We believe that similar disclosures for material contracts for non-public services that are also capital intensive would be equally relevant to the users of financial information. For example, this might include contracts to outsource IT and services that are dependent upon significant capital expenditure. We also consider that there should be some disclosures relating to the cash flows arising from the service concession arrangement.

- **SIC-D30: Reporting Currency - Translation from Measurement Currency to Presentation Currency**

  We would like to point out that the consensus does not deal with the issue set out in paragraph 4(b) of SIC-D30 and therefore suggest that paragraph 4(b) should be deleted. However, if paragraph 4 (b) is retained, we believe that it should be redrafted for clarity, and the consensus should respond to the issue.

We do not support the draft consensus set out in paragraph 5 of SIC-D30. The proposed method of translation would require an entity to re-measure transactions from the measurement currency to the presentation currency and, in doing so, potentially create additional exchange differences. This approach appears to contradict the requirement in SIC 19 that the translation process from the measurement currency to the presentation currency, while permitted, should not lead to reporting that is inconsistent with the result obtained using the measurement currency. We suggest that the preferred approach would be to translate items of income and expense and cashflows at the closing rate as it would not create additional exchange differences. This preferred approach would meet the requirements SIC-19 noted above.

- **SIC-D31: Revenue - Barter Transactions Involving Advertising Services**

  We support the consensus view expressed in SIC-D31.

- **SIC-D32: Intangible Assets - Web Site Costs**

  We agree with the draft consensus set out in paragraph 7 of SIC-D32.

  However, we are not fully convinced by the draft consensus set out in paragraph 8 of SIC D32. We believe that web sites developed for the specific purpose of promoting and advertising products and services are unlikely to satisfy the recognition criteria in paragraph 45(d) of IAS 38. We believe it is unlikely that the entity would be able to demonstrate how the intangible asset will generate probable future economic benefits, unless it can demonstrate a resale market for the web site itself.

  We believe the SIC should give greater weight to paragraph 19(a) of IAS 38. That generally imposes strict recognition criteria and requires that an intangible asset should be recognised only "when it is probable that future economic benefits that are *attributable* to the asset will flow to the enterprise". It seems to us that IAS presumes that an entity will not be able to identify future cash flows related to expenditure on advertising and promotional activities and thus requires in paragraph 57(c) of IAS 38 that expenditure on advertising and promotional activities should not be capitalised as an intangible asset.

  In addition, although paragraph 8(i)(b) of SIC-D32 refers to the principles in IAS 36 as to demonstrating how a website will generate probable future economic benefits, we believe that it would be more helpful to state more explicitly in that paragraph the relevant paragraph or the relevant principles in IAS 36, such as the cash generating unit principle, to which it actually refers.

- **Other general comment**

  In reviewing the above SIC Interpretations, we note that the word "indicate(s)" is used when making reference to a provision in an IAS. However, we believe that, if the reference is a direct quotation from an IAS, the word "state(s)" should be a more appropriate description.

If you have any questions on our comments, please do not hesitate to contact Ms. Elsa Ho, Assistant Director (Accounting) at the Society, in the first instance.

Yours faithfully,

WINNIE C.W. CHEUNG
SENIOR DIRECTOR
HONG KONG SOCIETY OF ACCOUNTANTS

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