

BY FAX AND BY POST

Our Ref.: C/UII

5 November 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-D33 to D34

We are pleased to set out below our comments for your consideration in response to the IASB Standing Interpretations Committee's Draft Interpretations SIC-D33 and D34.

I. SIC 33 "Consolidation and Equity Method - Potential Voting Rights"

Draft consensus and basis of conclusions

While supporting the draft consensus set out in paragraphs 3 and 4 of SIC D33, we envisage a situation where more than one party may argue that they have control over the enterprise. In such a situation one party may seek to consolidate by virtue of its existing majority control and dominance while the other party may seek to do so by applying the draft consensus of SIC D33. Potentially this could result in more than one party consolidating the enterprise. Accordingly, we consider that SIC D33 should include further guidance on this aspect to avoid the possibility of the double consolidation of an enterprise. We also consider that it would be useful to include an illustrative example in SIC D33 to deal with this issue.

In addition, we believe paragraph 3 of SIC D33 should make clear that the objective of considering potential voting rights that are presently exercisable or convertible is to determine "actual current" control or significant influence but not "potential future" control or significant influence, given that both IAS 27 and IAS 28 require determination of whether control or significant influence "exists" at the balance sheet.

Furthermore, we believe that the basis for conclusions section should explain a basis for the conclusion as to why potential voting rights that are presently exercisable or convertible should be included in assessing whether control or significant influence exists. Paragraph 5 explains the conclusion of why rights that are not presently exercisable or convertible should not be considered, but nowhere is the SIC's fundamental conclusion defended.

Example 3 of the appendix

We consider that example 3 of the appendix of SIC 33 is confusing and does not add value to SIC 33. Therefore we suggest that this example should be deleted. However, if this example is retained, we believe that the last sentence of paragraph 4 of this example, as regards the consideration of other factors for determining control, should be stated more prominently in the opening part of the example wording rather than leaving it at the end, as it reflects the premise of this example.

Example 4 of the appendix

We consider that the reason set out in example 4 of appendix to SIC 33 that the strike price of the options is deliberately set so high as to have no possibility of exercise would not preclude the enterprise from exercising the options for other reasons (such as a desire to gain control of the entity albeit at a high price) and, therefore, believe that this is not a very good example.

We also believe that the term "no possibility" is not the term used elsewhere in IASs and suggest that the term "remote" or "improbable" should be used instead.

II. SIC D34 "Financial Instruments – Instruments or Rights Redeemable by the Holder"

We support the consensus view expressed in SIC-D34.

If you have any questions on our comments, please do not hesitate to contact me at the Society, in the first instance.

Yours faithfully,

SIMON RILEY
DEPUTY DIRECTOR (ACCOUNTING)
HONG KONG SOCIETY OF ACCOUNTANTS

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