

**Speech**  
**Speech by SFST at 7th IFRS Regional Policy Forum of HKICPA**  
**(English only)**

Wednesday, June 5, 2013

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the 7th IFRS Regional Policy Forum of the Hong Kong Institute of Certified Public Accountants (HKICPA) today (June 5):

Susanna (President of HKICPA, Ms Susanna Chiu), Clement (Chairman of HKICPA Financial Reporting Standards Committee, Mr Clement Chan), Kevin (Chairman, Asian-Oceanian Standard-Setters Group, Mr Kevin Stevenson), distinguished guests, ladies and gentlemen:

It is my pleasure to be here today at the 7th IFRS Regional Policy Forum. This is the first time that Hong Kong has hosted the Forum, and I would like to congratulate the Hong Kong Institute of Certified Public Accountants (HKICPA) on its role as organiser. A warm welcome to all of you, especially those who have travelled a long way to be here.

With the rapid growth of cross-border trade and business integration, a robust financial reporting regime has become the cornerstone of the global market economy. A full and accurate financial report provides a comprehensive picture of the financial well-being of a company. As the business and financial operations of companies become increasingly complicated, it is important that the economic value of companies and their various operational components are transparent. High quality "true and fair" financial reports are essential for a market-based economy, as stakeholders rely on them as the basis for valuation and decision-making. Timely and proper disclosure is also a key to good corporate governance. Investors respect sound governance structures and are prepared to pay a premium for them.

As an international financial centre, Hong Kong is supportive of a common financial reporting framework at the global level, one that sets minimum standards for the quality of information provided in a corporate financial report. As you may be aware, Hong Kong was among the first major jurisdictions to adopt the IFRS (International Financial Reporting Standard) in 2005. Since then it has become widely used in Hong Kong, and the majority of companies listed on the Hong Kong Stock

Exchange now prepare financial statements in accordance with the IFRS or its Hong Kong equivalents.

As the body responsible for the IFRS, the International Accounting Standards Board has an important task, but it is also a difficult task. One of the main objectives of accounting is to present the economic value of an entity. A significant challenge for those setting the standard of accounting rules is that these rules must be applicable to produce reliable results for entities that are diverse in terms of their industries, operational and financial characteristics. Often there is a tradeoff between relevance and reliability, and one such example is fair value accounting, or what is known as mark to market accounting.

Fair value accounting was widely criticised during the financial crisis of 2008, as many financial instruments were heavily marked down during the market meltdown. It was said that fair value accounting led to market distress and even contagion, as some firms were required to enter into forced sales as they could not meet their capital requirement.

Clearly the challenge for the rule-setting body is to define fair value, so as to accommodate situations when the market price is not available or when the relevant markets are in financial distress. But even if there are difficulties in arriving at fair value, fair value accounting is more valuable to the market than the alternative of resorting to some sort of historical cost accounting. Moreover, the market contagion that is supposed to be caused by fair value accounting can be mitigated by capital rules that take the market value as a starting point, and consider the effect of financial distress on the market price.

The fair value accounting debate is perhaps a high profile, or even politically charged, example of the challenges faced by the accounting standards body in determining economic value, but similar challenges must abound in other accounting rules. I think the fair value accounting debate also illustrates why the rule-making body should be comprised of professionals, with a strong measure of political independence. But there should also be strong co-operation between the rule making body and financial regulators, to ensure consistency in market transparency policy and also to mitigate macro-prudential financial risks.

It is with these thoughts in mind that I turn to the scene in Hong Kong. As the self-regulating body authorised to register qualified accountants, the HKICPA and the

professionalism it embodies have played a central role in Hong Kong's development as an international financial centre. In 2004, the independence of the institute was enhanced by increasing the number of lay members and Government appointed officials in its Council.

In 2006, the Financial Reporting Council was established and is now responsible for investigating possible auditing and reporting irregularities in relation to listed entities, and looking into possible non-compliance with accounting requirements by listed entities. To strengthen the regulatory framework for the audit profession, the Government is working with the Financial Reporting Council and the HKICPA on ways to further enhance the independence of Hong Kong's auditor oversight regime in line with international standards and best practice.

It is also important for us to take into account local conditions as we strengthen the regulatory regime. Hong Kong is well known for its high level of entrepreneurship and the proliferation of small-and-medium enterprises. With reference to the IFRS for SMEs, the Hong Kong Financial Reporting Standard for Private Entities was issued in 2010 to lessen the burden on private entities with no public accountability.

In the area of financial regulation, we are firm believers that good and sensible regulation is a prerequisite to a quality financial market. In recent years, we have introduced legislation that improves the disclosure of corporate information, such as the requirement for companies to disclose price-sensitive information. Our financial regulator, the Securities and Futures Commission, is bringing new rules to regulate sponsors and improve the quality of our IPO market. But, you may ask, what is our position on Quarterly Reporting? My answer is that we have been very cautious about maintaining the balance between information disclosure and efficiency. Where to strike this balance may well depend on the nature, size and complexity of a company. We consider that a mandatory requirement for all firms may not be desirable, and it may encourage managerial short-termism, to the detriment of the economic value of the firms concerned.

I now would like to turn to describing our efforts in developing our financial market.

The Government attaches great importance to market development. Asset management is one of our focus areas. We are considering legislative proposals to introduce Open-ended Investment Companies in Hong Kong. Our tax laws are being

amended to better support private equity funds and the development of Islamic finance. We are also reforming our trust law regime to bring it up to date.

You may also be familiar with our work in developing the offshore RMB market. Since 2004, Hong Kong has been acting as a testing ground for the internationalisation of RMB. Today, we are the largest and most competitive offshore RMB business centre, providing one-stop services to corporates and financial institutions from different parts of the world. Apart from conducting cross-border trade settlement in RMB, Hong Kong also has the largest offshore RMB liquidity pool, with a wide range of RMB-denominated products on offer. We shall continue to work in tandem with the Central Government to introduce pilot schemes to promote the wider use of RMB as a settlement, investment and funding currency around the world.

Finally, I wish to commend the HKICPA for the prominent role it has played in the development of the accounting sector in Hong Kong. I am confident that this Forum will provide the perfect platform for all participants to exchange views on the latest developments in financial reporting and the global economic environment.

And for those representatives from overseas, I hope you will have the opportunity to see more of Asia's world city. I wish you all a memorable stay in Hong Kong!

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