



香港會計師公會

HONG KONG SOCIETY OF ACCOUNTANTS

(Incorporated by the Professional Accountants Ordinance, Cap. 50)

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Our. Ref.: C/FASC

24 January 2002

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

Dear Sir/Madam,

**Exposure Draft Preface to
International Financial Reporting Standards**

Please find attached comments from the Hong Kong Society of Accountants (HKSA) on the Exposure Draft Preface to International Financial Reporting Standards (IFRS).

We would draw particular attention to our comment under section 4 where we note that the Preface does not make reference to the way in which the IASB intends to monitor and enforce the IFRS.

For a standard setter such as ourselves that is both at present in the process of converging its standards with the IFRS and sets accounting standards in a jurisdiction where the capital market permits IFRS-compliant financial statements for listing purposes, the ability for a competent agency to whom persons can refer on matters regarding monitoring and enforcement is a key component of users' needs as regards standardised financial reporting practice.

In the strictest sense, only the IASB has jurisdiction over the standards it sets. At the present time, the HKSA operates a monitoring and enforcement regimen in respect of its own standards. Considering the prevalence in Hong Kong of financial statements that contain a statement of compliance with IFRS, we are concerned that such financial statements can easily fall through the monitoring and enforcement net.

Consistent application of IFRS is central to the successful convergence of accounting standards internationally. This aim may not be truly fulfilled, however, for as long as the means to ensure effective enforcement of IFRS remains undetermined.



The HKSA's sentiments on this issue are expressed in section 4 of the attached comment letter. The FIKSA feels that the IASB should, in keeping with its stated objectives, be concerned about whether financial statements that contain a statement of compliance with IFRS are indeed IFRS compliant. We appreciate that there is no easy answer to this issue but the HKSA is interested to work with the IASB on this matter to investigate potential solutions to the matter.



Yours faithfully,

WINNIE C.W. CHEUNG
SENIOR DIRECTOR

HONG KONG SOCIETY OF ACCOUNTANTS

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End.

Hong Kong Society of Accountants' comments on the Exposure Draft Preface to International Financial Reporting Standards

The Hong Kong Society of Accountants welcomes the opportunity to provide you with our comments on the exposure draft of a Proposed Preface to International Financial Reporting Standards (the “exposure draft”).

We address our comments in response to the four questions raised in your Invitation to Comment.

Question 1 – Scope and Authority – Application of IFRS

The main thrust of paragraph 9 is that the IFRS are designed primarily for use in preparing general purpose financial statements for profit-oriented entities and we are in general agreement with this.

We would wish to raise two issues in relation to the drafting of paragraph 9:

1. The interface between standards developed directly by the IASB and the standards developed by the PSC for the purposes of non-commercial public sector entities is not clear as to which applies in preference to the other; and
2. The terminology used by the IASB in describing financial statements is neither consistent with the newly-adopted title, “International Financial Reporting Standards”, nor with the desirability of developing financial reporting standards for application by entities in any sector.

As it appears in the exposure draft, paragraph 9 initially takes the direction that IFRS are applicable solely to profit-oriented entities. But it goes further to say that other entities may find it appropriate to apply the standards. The paragraph concludes by stating that the PSC is also developing a set of standards, based on the IFRS, for application by public sector entities other than government business enterprises.

We believe it is appropriate in paragraph 9 to acknowledge that the IFRS are designed to apply *primarily* to profit-oriented entities. But, consistent with the objective set out in paragraph 6(a) of the exposure draft, which does not necessarily pertain to any one sector, we think it is appropriate for the IASB to both encourage and facilitate application of the IFRS by entities in other sectors, and, where in the case of the PSC, a separate set of standards are being developed but based on the IFRS for application by a specific sector, to acknowledge whether entities in that sector should give preference to the IASB standards or the PSC standards.

The standards issued by the IASB are to be known as “International Financial Reporting Standards”, applicable primarily to external general-purpose *financial statements* (per the terminology used in IASB literature) rather than a *financial report*. We note that the IASB is making progress on a project to develop a standard on Management Discussion and Analysis and we raise the question as to whether this project is scoped to culminate in a document that specifies standardised practice in the preparation and presentation of a *financial statement* or other information that is included in a financial report, on which an independent auditor may or may express an opinion. We believe that the Preface should be scoped appropriately to include all of the IASB’s present and contemplated projects.

Question 2 – Scope and Authority – Differentiated type-face

The main thrust of paragraph 14 of the exposure draft is the proposed removal of the distinction between bold italic type and plain type in a financial reporting standard.

We agree with this proposal.

All paragraphs within a financial reporting standard collectively form the requirements of the standard. The bold type paragraphs create the requirement and the plain type sets out commentary, application guidance, interpretation, and other useful material to establish the context within which the ‘mandatory’ bold type paragraphs are written. The fact that certain paragraphs appear in bold type we believe assists in focussing the mind on the requirements of a Standard.

It has been our past experience, when inquiring into financial reporting practices that were inappropriate and contrary only to the plain typeface of an accounting standard, that such practices were supported by the preparers and auditors concerned on the basis that the plain typeface of a standard does not constitute a mandatory requirement. We believe the removal of the distinction between bold and plain typeface in a standard will give preparers less cause to promote financial reporting practices that are inappropriate and contrary to the spirit and letter of an accounting standard, taken as a whole.

Question 3 – Due Process

We agree that the due process as expressed in paragraphs 19 and 20 is appropriate.

One issue we wish to raise with the IASB, however, and this relates to the policy of convergence stated in paragraph 6(c), is the minimum periods for which an exposure draft is released to the constituency for comment.

In the case of an exposure draft IFRS, those national jurisdiction standard setters that have in place a policy of convergence with the IFRS may wish to seek concurrently comment from their national constituency. We are concerned that, if the IASB has in mind an exposure period that is unduly short, it may not be possible for the national standard setter to so seek meaningful and considered comments from the constituency (notwithstanding that this part of the national jurisdiction due process runs to some degree on an ‘auto pilot’ mechanism), analyse those comments, and present them together with recommendations within the allowed timeframe.

We would recommend that the IASB indicate in the paragraph 19(e) & (f), in relation to the publication of draft material for comment, that a minimum period of four months after the date of publication be provided to the constituency for the submission of comments.

Question 4 – General

We raise one additional issue, in connection with the IASB’s objective stated in paragraph 6(b) of the exposure draft, which concerns the matter of monitoring compliance with IFRS and which, in this day and age of convergence, has increased relevance not only for the IASB but also for national standard setters globally.

The IASC's Preface, at paragraph 19, the following was stated, "Standing alone, neither the IASC nor the accountancy profession has the power to enforce ... or to require compliance with International Accounting Standards". We note that the exposure draft contains no reference to the issue of monitoring and enforcement, except for the IASB's objective to "promote the ... rigorous application of those standards".

We believe it is appropriate for the IASB to indicate in the Preface how it proposes to give real effect to the issue of monitoring financial reports prepared in accordance with IFRS. We do not agree entirely with the presumption in the old Preface that the IASC or the IASB is completely powerless in this regard, although the issue of resource constraint is no doubt more to the point.

The IASB is not a national regulatory body and therefore does not have the power to impose a financial penalty or require amendment in the case where financial statements are found to be deficient, the IASB does have the ability, arising from the fact that the IASB is in sole ownership of the IFRS, for the IASB to determine whether a financial report prepared in accordance with IFRS actually do give a fair presentation in accordance with the IFRS.

For any other body other than the IASB to be passing judgement on the appropriate application of IFRS is a matter that should concern the IASB if the IASB wishes to retain its jurisdiction over the IFRS.

We do not believe the IASB can have as one of its objectives the promotion of the rigorous application of the IFRS on a consistent basis globally and yet remain silent on the initiatives it plans to carry out in order to meet that objective.

We believe that the IASB should consider the methods by which it will promote the rigorous application of IFRS, and suggest that an International Financial Reporting Monitoring Panel be established, in conjunction with a strategy to engage those national jurisdiction standard setters that have adopted a convergence policy per the IASB's objective stated in paragraph 6(c), to provide a mechanism for the review and public comment on the application of IFRS or converged national requirements.