



Our Ref.: C/FRSC

By e-mail ed.accounting@cica.ca and by post

24 May 2006

Director, Accounting Standards
Canadian Accounting Standards Board
277 Wellington Street West,
Toronto,
Ontario M5V 3H2 Canada

Dear Sirs,

Comments on IASB Discussion Paper: *Measurement Bases for Financial Accounting - Measurement on Initial Recognition*

The Hong Kong Institute of Certified Public Accountants welcomes the opportunity to provide you with our comments on the captioned Discussion Paper.

We understand that the IASB is currently finalising an exposure draft on fair value measurement as part of its convergence project with the FASB. In the light of this, we see a need for the IASB explaining how this discussion paper would complement its work going forward, in particular relating to its fair value measurement and other conceptual framework projects.

We are unable to comment on the conclusion of the discussion paper that market value (or fair value) is the best measurement base for initial recognition in isolation from the consideration of "when" and "what" should be recognised and the wider issue of how an asset or a liability should be measured after initial recognition.

We also feel that there are many conceptual and practical aspects in the measurement of an asset or liability that have not been addressed fully in reaching the conclusions in the discussion paper. In the light of this, we consider that substantial further work on the conceptual framework would be needed before the IASB decides to take this detailed discussion paper forward.

In particular, we note that many arguments in the discussion paper for the use of market value rest on the assumption that efficient markets exist for every asset and liability and that each asset can only be traded in a single market. In practice, this is seldom the case. For example, IAS 39 *Financial Instruments: Recognition and Measurement* acknowledges that some equity instruments cannot be measured at fair value and we note that entities might find difficulties in arriving at the fair value of many related party transactions. Further, market prices frequently differ between wholesale and retail markets.

In addition, the discussion paper appears to justify the adoption of fair value accounting on the premise that market measurement objectives are superior to enterprise specific objectives. However, in many cases, we consider that reflecting enterprise specific objectives rather than market objectives is more relevant to the users of financial statements. We consider that this is a very important conceptual issue that must be agreed upon first before any consideration on measurement can begin.



Moreover, the discussion paper articulates the issues relating to portfolio creation and the level of aggregation in arriving at the unit of account. We however consider, in practice, the difficulty is usually in disaggregation, for example, in the case of land and buildings that are acquired together as a package or assets with components requiring separate treatment as acknowledged in IAS 16 *Property, Plant and Equipment*.

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

Yours faithfully,

Patricia McBride
Director, Standard Setting

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