



12 December 2012

Our Ref.: C/FRSC

Sent electronically through the IFRS Foundation Website (www.ifrs.org)

IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

IFRS Foundation Invitation to Comment on Proposal to Establish an Accounting Standards Advisory Forum

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. We appreciate the opportunity to comment on the IFRS Foundation (Foundation) "Proposal to Establish an Accounting Standards Advisory Forum" (ASAF) – (the "Proposal").

We support in principle the Foundation's move to formalise and rationalise the relationship between the IASB and National Standard-Setters onto a more logistically sustainable and compact basis. We believe there would be a significant mutual benefit for both the IASB and for those standard-setters such as ourselves to be more fully and directly engaged with each other from having the Proposal put into operation.

We have set out our comments in the Attachment in response to the two questions contained in the Foundation's Invitation to Comment, and in relation to other identified paragraphs in the Proposal.

We trust that our comments are of assistance to you. If you require any clarification on our comments, please do not hesitate to contact me at simonriley@hkipa.org.hk.

Yours faithfully,

Simon Riley
Director, Standard Setting

SR/AW/jn

Encl.

IFRS FOUNDATION INVITATION TO COMMENT ON PROPOSAL TO ESTABLISH AN ACCOUNTING STANDARDS ADVISORY FORUM (ASAF)

Request for Specific Comments

1. Proposed commitments to be made by ASAF members (paragraph 6.4) formalised in a Memorandum of Understanding (MoU) (paragraph 6.5)

We agree with the contents of paragraph 6.4 and with the proposal that the Foundation (or IASB) enter into a MoU with ASAF members in order to form a mutual understanding of their respective commitments to the operation of the ASAF. If a member of the ASAF could not commit (in paragraph 6.4.1, for example) to support the Foundation's mission to develop in the public interest a single set of high quality, understandable, enforceable and globally accepted financial reporting standards then one would need to have significant concerns as to why that National Standard Setters (NSS) or regional body is participating in the ASAF.

Our vision is that the ASAF not only be a forum in which the IASB seeks to consult with participating NSS and regional bodies but is also one in which those members and their representatives are able to bring various technical issues (which may or may not be on the IASB's active project agenda) to the table for discussion with other ASAF members and with the IASB itself. While the time available for the latter may understandably be more limited than for discussion on matters relating to the IASB's active project agenda, nonetheless we believe this forum would be appropriate for the discussion of such matters. For the ASAF to act in this way as a 'two-way street' we believe is important strategically for the success of the ASAF, as well as for the individual NSS and regional bodies who participate either directly at the table or provide additional technical support to those participants, to demonstrate they are engaged with the IASB not only to consult on technical matters relating to the IASB's project agenda but to have the ability to raise issues of their own. Such issues would not necessarily be raised in the context of setting the IASB's agenda, although they could be raised in such a way as being a precursor to the Foundation's other advisory and agenda-setting bodies discussions of the IASB's agenda but simply within the scope of the ASAF as a forum within which participating NSS and regional bodies are able to highlight and conduct a multi-lateral dialogue on technical issues that are relevant to all participants. We believe this 'two-way street' approach to the ASAF would further enhance its credibility and strategic value in the standard-setting due process for both the IASB and participants, subject to a workable demarcation being developed as between the scope of the ASAF and the IFRS Interpretations Committee, respectively.

With the above in mind, we would be interested to see that an additional commitment on the part of the Foundation be added in paragraph 6.4 – and we understand, support and expect the MoU proposed in paragraph 6.5 would largely be based on the content of paragraph 6.4 – that the Foundation/IASB offer commitments of its own to allow the airing of emerging technical issues by participating NSS and regional bodies rather than have an agenda limited necessarily to the technical activities of the IASB (paragraph 6.4.2). An understanding about how the ASAF agenda is formulated may also need to be built in to the commitments and MoU on which the ASAF is based.

We agree that there should be the expectation for a representative to consult widely within their regional grouping of NSS, not necessarily for the purpose of obtaining consensus on a particular matter but – especially at the earlier stages of discussion – for canvassing views and engaging NSS (and, through them, their respective constituents and stakeholders) on technical matters to bring what may likely be a divergent collection of views to the ASAF table. Of particular importance to the IASB we foresee is not only to take note of those divergent views but to ensure that standard setting projects recognise those divergent views and ensure that standard setting proposals are both responsive and relevant to concerns that have been proactively sought from a broad base of standard setters and their constituents.

In recognising that there would be divergent views on any given issue especially at the earlier stages of discussion, we would expect a representative from the Asia-Oceania region to at least bring other regional NSS members' views to the table (i.e. there is an expectation and an undertaking on the part of the representative to do so) but would not necessarily be expected to further advocate those views if they differed from the representative's own views.

Inasmuch as it is important for the IASB to seek consensus on matters, it is equally important for the IASB to understand where there are significant divergences in approach because these latter points present the IASB with standard-setting risk that needs to be addressed in discussion papers, exposure drafts and proposed bases of conclusion.

2. Proposed size and composition as set out in paragraphs 6.7-6.13

We agree in principle with the Foundation's approach to the size of the ASAF. There should be a critical mass of membership of the ASAF: that is, enough members at a minimum to allow the major NSS and regional bodies to be represented for a healthy dialogue of views to take place, and especially bearing in mind the need for flexibility and specialised input on certain topics from time-to-time; but not so many members at a maximum that would impede on the workability of the ASAF.

We are concerned that some of the proposals expressed in paragraphs 6.7-6.13 may be in need of some added clarity as per the following discussion:

Paragraph 6.11 indicates that the membership structure in paragraph 6.8 would be reviewed after two years but it also appears to us from the context of paragraphs 6.7-6.13 that members would be appointed for terms of two years. We believe this latter point needs to be made clear in the Proposal either way. Paragraphs 6.12 and 6.14 appear to indicate that, to a degree, membership might be more on a 'floating' basis such that different individuals might be sitting at the table at different stages during the same meeting depending on the subject matter being discussed at various times. So, for example, if the AOSSG was the organisation being represented on all 3 seats allocated to the Asia-Oceania region under paragraph 6.8, although the AOSSG Chair would by virtue of paragraph 6.14 ex-officio be occupying a 'permanent' seat (2-year term), the other two seats could be occupied by different members of the AOSSG, in representing the views of AOSSG members, depending on the subject matter being discussed (subject to the 'technical expertise' criterion and other pre-requisite commitments expressed elsewhere within the Proposal, which we support). If

this is intended in the Proposal then we would support that intention.

However, we appreciate that the suggestion that the attendees would be fluctuating, selected from a regional pool depending on the topic under discussion could involve added cost on the part of the attendees and/or could be difficult to arrange in terms of logistics and agenda planning, unless the IASB itself formalizes the extent of topic focus and ensures that the agenda is structured accordingly. There is also the risk that allowing substitution on any topic will upset the continuity of discussion within the forum on inter-related topics. In considering our recommendation we are mindful of what might be done by the IASB to make this workable, other than just allowing the regions to substitute on any topic they like. For example the IASB could allow or encourage the regions to identify a regional financial instruments focused individual who would take the place of a more generalist individual from that region for those portions of the agenda discussing financial instruments (and the IASB would then need to group these agenda items e.g. into one day of the 2 day meeting).

The strategic potential and importance of the ASAF in our part of the world is such that it would enable national standard setters – especially those such as ourselves who are fully converged with IFRS – to demonstrate substantively to their local constituents that they are indeed fully engaged with the IASB and with the due process by which IFRS are developed and set. This would be a relationship of real substance, not just appearance. IFRS-converged standard-setters in particular, but also those who are on a committed, demonstrated path towards convergence, will have an ability and a need to be included within the ASAF framework whether as a 'full-time' member as envisaged in the second sentence of paragraph 6.14, or as a specialist expert as envisaged by the last sentence of paragraph 6.14. It is our hope that where a regional body such as the AOSSG has been appointed membership on the basis of "organisational representation" (as stated in paragraph 6.14), and has been allocated 3 seats on the ASAF, it will be able to determine for itself within its own operating procedures, how it occupies the 3 seats at the table on any given subject matter – and, accordingly, how members of the AOSSG will be able to designate themselves in acknowledgement of their role and involvement with the ASAF.

One area of added flexibility which we believe the Foundation should consider is in the area of the "world at large" representation. We are not necessarily advocating for an increase in membership of the ASAF beyond the total of 12 proposed in paragraph 6.8 but we feel that the Foundation should not bind itself necessarily to cap membership at 12 if, for example, there was merit at some stage in the future, or at least in respect of a specific project, to warrant an additional seat or two being occupied. With this in mind, we would recommend the Foundation to consider whether the "world at large" contingent, rather than being set at an absolute and inflexible "2" be expressed in the following terms:

"... a minimum of 2, but not more than (at the discretion of the IASB) 4, seats"

The IASB would then have the ability – if it ever had such a need, or if it wished to respond favourably to a representation from the ASAF – to bring in an additional participant or two if even only for deliberations relating to a specific project.



3. Comments on other paragraphs in the Proposal

Paragraph 4.1 – As indicated above, we note the strategic importance and value of the ASAF works both ways – not only for the IASB to proactively identify technical matters and related "buy-in" issues before having committed significant resources to a standard setting project, but also for the ASAF participants themselves to provide further substantive evidence to their local constituents as to how they are directly engaged with the IASB in standard-setting projects from the very infancy of those projects (including, possibly, interpretations issues subject to a workable demarcation being developed as between the scope of the ASAF and the IFRS Interpretations Committee, respectively).

Paragraph 6.17 – We believe this paragraph is too prescriptive. We could easily see the need arising for the ASAF to meet once every two months, perhaps up to 5 times a year and for meetings to cover 2 full days each time. However, experience may determine the need to meet fewer times during the year. In making the proposed ASAF workable, we are mindful that both the IASB and those participating either directly, or indirectly through regional standard setter working groups or other means by which organisational support is provided to those who participate directly in the ASAF, will need to commit significant resources and to have enough time to obtain input/feedback from other standard setters in their region. We would recommend that the Foundation consider re-drafting paragraph 6.17 with an added degree of flexibility such that, for example, "the ASAF should meet no fewer than 3 times a year for not less than 1.5 days per meeting".

~ END ~