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Our Ref.: C/AOSSG

11 October 2011

AOSSG Secretariat
Tomo Sekiguchi and Shizuka Yahata

Dear Tomo and Shizuki,

Nomination of Vice- Chair of Asian-Oceanian Standard-Setters Group (AOSSG) from 2011 annual meeting in November

I refer to the email from Tomo Sekiguchi dated 26 September 2011 inviting nominations for the Vice-Chair of the AOSSG, the appointment to be effective from the 2011 annual meeting in November 2011.

On behalf of the Hong Kong Institute of Certified Public Accountants (the Institute) I have pleasure in submitting our application for the position of the Vice-Chair of AOSSG from 2011. Mr. Clement Chan, the Chairman of the Financial Reporting Standards Committee of the Institute, will be representing the Institute for the position of the Vice-Chair of AOSSG from 2011 annual meeting in November.

As an organization with extensive expert experience in standard setting and a close and long standing relationship with the IASB, the Institute is prepared to take up the leadership role in AOSSG to bring together the knowledge and experience which exists in the region to improve the global standard setting process and to help establish the AOSSG as a well-functioning regional group of standard setters.

Hong Kong has the ability to carry out the role over the requisite periods as Vice-Chair and Chair for two years in each position and is committed to serve the AOSSG without any bias towards our home jurisdiction's interests.

As illustrated in **Appendix 1**, the Institute possesses the strong leadership and technical experience and resources necessary to achieve the objective of the AOSSG.

Furthermore, we believe that Mr. Chan's experience of and exposure to financial markets and financial reporting affairs would enable him to make a strong contribution to the work of the AOSSG. Mr. Chan has indicated his willingness to serve in the position of the Vice Chairman of the AOSSG and a copy of his curriculum vitae is enclosed at **Appendix 2**.

Thank you for your kind consideration of our application.

Yours sincerely,

Chris Joy
Executive Director

Encl.

c.c. Mr. Clement Chan

Appendix 1

Hong Kong Institute of CPAs – One of the world's leading accountancy bodies

The Hong Kong Institute of CPAs (the Institute) has a long and distinguished heritage having evolved from the Hong Kong Society of Accountants, established in 1973. Being Hong Kong's only statutory licensing and regulatory body for accountants and with over 32,000 members, the Institute has wide-ranging responsibilities that include maintenance of the quality of entry to the profession through its postgraduate qualification programme, issuance of financial reporting, auditing and assurance, and ethics standards in Hong Kong. It has also responsibility for quality assurance and regulation of members to operate a comprehensive regulatory regime that commands public trust and confidence.

The Institute is also one of the parties funding the Hong Kong Financial Reporting Council (FRC), which is responsible for the investigation of irregularities in financial reporting by listed companies. The Institute holds discussions, when appropriate, with FRC regarding ongoing investigations or enquiries in which the Institute has a regulatory interest or role.

Experience in full adoption and effective implementation of IFRSs

Hong Kong was an early adopter of IFRS having formally based its standards on IAS/IFRS since 1993 and was one of the first jurisdictions in the world to adopt IFRS in 2005, confirming our leading role in contributing to world convergence in financial reporting standards. The Institute has maintained a policy of full and prompt verbatim adoption of IFRS and is a recognized champion of IFRS both regionally and in the rest of the world.

Hong Kong has also adopted IFRS for SMEs in the form of HKFRS for Private Entities in 2010. This standard is a reporting option for eligible non-public accountable entities and is one of the few in the world that have addressed the financial reporting needs of small and medium sized non-public enterprises.

For facilitating effective implementation of IFRSs and to enhance the quality of financial reporting in Hong Kong, the Institute has operated a professional standards monitoring programme for several decades which reviews published financial statements to identify potential application issues in professional standards. The identified issues are considered by an expert panel and guidance is developed to assist adoption in IFRS and other professional standards.

Hong Kong's active participation in international financial reporting standard setting

Direct involvement in governance of the IFRS Foundation

Hong Kong has been regarded as an important and long standing contributor to global standard setting and is consistently represented at meetings held by the IASB and other standard setting bodies. We are involved in the governance of the IFRS Foundation through Marvin Cheung acting as a trustee and P.M. Kam acting as a member of IFRS

Advisory Council of the IFRS Foundation. We also maintain close contacts with the IASB and the IFRS Interpretations Committee directly through Zhang Wei-Guo, Wayne Upton and others.

Proactive involvement in international financial reporting standard setting

The Institute is proactive in international financial reporting standard setting and provide comments on nearly all exposure drafts and discussion papers.

Over the last six years, the Institute has raised a number of issues with the IASB stemming from the application of IFRS/HKFRS so as to add practical knowledge and to seek solutions within the global standard setting environment to those practical issues. Through the relationship with the IASB, the Institute has managed to resolve the following issues which are significant to Hong Kong and China:

- IAS 24 Related Party Disclosures (issued on 4 November 2009)
 - The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government related entities) and clarifies the definition of a related party
- Revaluation basis as deemed cost for IPO (issued on 6 May 2010)
 - In some jurisdictions (like the People's Republic of China), local law requires an entity to revalue its assets and liabilities to fair value for a privatization or IPO and to treat the revalued amounts as deemed cost for the entity's previous GAAP
 - According to IFRS at that time, if that revaluation occurred after the entity's date of transition to HKFRSs but during the period covered by the entity's first IFRS financial statements, the entity could not have used that revaluation as deemed cost for IFRSs purposes.
 - Therefore, the entity would have had to prepare two sets of measurements for its assets and liabilities – one to comply with IFRSs, and one to comply with local law
 - IFRSs have been amended to allow an entity to recognize an event-driven fair value measurement as deemed cost when the event occurs, provided the measurement date is within the period covered by its first IFRS financial statements
 - An entity is to apply the amendment for annual periods beginning on or after 1 January 2011. Earlier application and retrospective adoption by existing IFRS users is permitted
 - This was a significant contribution by Hong Kong in lobbying the IASB to have this amendment updated – removing a major reconciliation item in the financial statements of China- and international listed companies
- Amendments to IAS 12 Income Taxes – Recovery of Underlying Assets (issued on 20 December 2010)
 - The original IAS 12 is clearly flawed in the Hong Kong context because it requires the recognition of deferred tax liabilities arising from revaluation of

- leasehold investment properties that are not subject to any form of taxes in Hong Kong upon disposal.
- The eventual amendment to IAS 12 generally resulted in the deferred tax liability on investment properties being limited to the tax effect of any claw back of depreciation allowances that would occur on sale at the current carrying amount, as there is currently no capital gains tax in Hong Kong
- The amendment is effective for annual periods beginning on or after 1 January 2012. Earlier application is permitted.

Extensive experience in resolving application issues of IFRSs with the IFRS Interpretations Committee

The Institute possesses extensive experience in communicating and working with the IFRS Interpretations Committee on clarifying application issues which have arisen in Hong Kong, including the following:

- Guidance on the meaning of "consumption of economic benefits" when determining the appropriate amortization method for an intangible asset with a finite useful life in IAS 38 Intangible Assets

Following adoption of IAS 38 *Intangible Assets*, we have observed that there are divergent practices regarding the basis of amortization of time-based intangible assets with a finite useful life. Based on our research performed, we believe that divergence is widespread. In some jurisdictions the use of a units of production approach to amortize rights to operate infrastructure projects (that are accounted for as intangible assets) is common. In others it is rare. A revenue-based approach is common for some assets such as film rights and more generally in the entertainment industry, whereas telecommunication licences tend to be amortized on a straight line basis. Consequently, in our view it is important to develop a principle to address the inconsistencies across industries and geographical boundaries.

In order to prevent divergent practices, the Institute requested IFRIC to provide an interpretation on whether the term "economic benefits embodied in the asset" as stated in paragraph 97 of IAS 38 refers to revenue generated from the asset or refers to the asset itself.

- Guidance on whether the underlying economic environment of subsidiaries should be considered in determining the functional currency of the stand-alone financial statements of the investment holding company

Through our reviews of listed companies' financial statements, we have observed that there are divergent practices relating to the determination of the functional currency of investment holding companies, particularly those with no or minimal operating activities of their own. Given that the concept of a group-wide functional currency it is not addressed by IFRSs, management of investment holding entities have to apply the guidelines in IAS 21 *The Effects of Changes in Foreign Exchange Rates* using their own judgement and interpretation. This can and does result in different answers even though the facts and circumstances may be similar. We are concerned that the divergent practices will significantly reduce comparability among

companies' financial reporting. We, therefore, requested the IFRIC to provide an interpretation on what factors should be considered in determining the functional currency of an investment holding company. We understand that similar divergent practices have also been observed in other jurisdictions around the world – in particular where an investment holding company is established outside the jurisdiction of its principal operations

- Guidance on current/non-current classification by the borrower of a term loan that is callable by the lender at anytime

The IFRS Interpretations Committee agreed with the Institute's stated opinion that the classification of a term loan in accordance with paragraph 69(d) of IAS 1 shall depend on whether or not the borrower has an unconditional right to defer payment for at least twelve months after the reporting period. Consequently, amounts repayable under a loan agreement which includes a clause that gives the lender the unconditional right to call the loan at any time shall be classified by the borrower as current in its statement of financial position. This is because the borrower under such an agreement does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

This issue resulted in the production of local guidance in the form of *Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*. We understand that other jurisdictions are considering issuing similar guidance.

Hong Kong contribution to mainland China's convergence process

One of the greatest advances the accounting profession in the region has achieved in recent years is to create the same language for the accounting profession – a global lexicon. The Hong Kong Institute of CPAs has been a leading advocate of this inclusive language. The combination of this advocacy and our active encouragement has borne fruit as China's new financial reporting standards have moved toward substantial convergence with IFRS and HKFRS.

Hong Kong has been a special administrative region of the People's Republic of China since 1997, under the doctrine known as "one country, two systems". The Hong Kong Institute of CPAs has played a significant and direct role in the mainland's standards convergence exercise. Between 2006 and 2007, the Institute and China's Ministry of Finance conducted an extensive item-by-item comparison between our standards and those of China, and have agreed to eliminate most of the discrepancies found. This led to the signing of a joint declaration of substantial convergence between mainland and Hong Kong standards setters in December 2007. As China continues the process of converging with international accounting standards, the Institute is maintaining its role as a contact point. Regular working meetings on convergence are attended by the Ministry of Finance, the IASB and the Institute. The European Commission has accepted Chinese accounting standards since 2008 as equivalent to IFRS as adopted by the European Union. We will continue these efforts in the future. This experience has enabled Hong Kong to enhance its capability of assisting other jurisdictions in applying, adopting or converging with IFRSs.

Hong Kong's extensive involvement in international and regional standard setting initiatives

Involvement in international and regional standard-setters organizations and conferences

The Institute is committed to involvement in international and regional standard-setters organizations and conferences where our concerns and experiences can be usefully shared with other jurisdictions. Collective actions between jurisdictions are an effective means of resolving issues which are of common concern.

- ***Asian-Oceanian Standard-Setters Group (AOSSG)***

Hong Kong is a member of the AOSSG's Chairman's Advisory Council and is involved in the majority of technical working groups i.e. :

- fair value measurements
- financial instruments
- revenue recognition
- leases
- common control
- agriculture

Hong Kong will also co-lead the discounting project with Australia.

- ***National Standards Setters (NSS)***

The Institute comments on regular issues raised by NSS and assists the process in carrying out research aimed at the development of improved accounting standards.

The Institute has participated in the discussions on

- Survey on Uncompleted Real Estate Sales organized by Singapore Accounting Standards Council (ASC)
- IFRS 3 - regrouping guidance on contingent consideration
- IFRS 3 - Whether a single investment property with some associated processes is considered a business

The Institute also participates in various NSS technical working groups such as the conceptual framework project on unit of account.

Hong Kong undertook to collate information on EFRAG's proposals on the accounting of embedded derivatives and the classification criteria of IFRS 9 to be presented at the NSS meeting in September 2011.

- *World Standard Setters conference (WSS Conference)*

During the WSS Conference, the Institute participates actively in discussions about the IASB's agenda and application experience in implementing IFRS. The Institute has constantly emphasized that the projects on the conceptual framework should be placed at a higher priority.

Support provided for international standard setting initiatives

The Institute has regularly organized roundtables and forums which are attended by IASB members and technical staff to ensure the views of our members are expressed and considered by the IASB.

- *Roundtable with the new IASB Chairman, Hans Hoogervorst*

We were honoured to have the new IASB Chairman, Hans Hoogervorst visiting Hong Kong on 28 and 29 July 2011 after his appointment on 1 July. At the roundtable with representatives from the Institute's financial reporting standards committee and listed companies, the group talked about making the conceptual framework the priority project, reducing the complexity of the standards and the use of plain English language in the drafting.

In addition, more than 240 HKICPA members met with the new IASB chairman, board member Dr. Zhang Weiguo and IFRS experts at the forum on 29 July and discussed:

- global convergence
- the exposure drafts on revenue recognition and leases
- the challenges posed by the insurance standard
- the newly released standards on consolidation and fair value measurement

- *IFRS Foundation Trustees Roundtable on "Report of the Trustees' Strategy Review – IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade"*

The Institute hosted the captioned roundtable, which is in addition to roundtables held in Tokyo, London and New York by the IFRS Foundation Trustees. The Hong Kong roundtable was attended by the following personnel from the IFRS Foundation:

- Tsuguoki (Aki) Fujinuma, Vice-Chair of IFRS Foundation Trustees
- Robert Glauber, Vice-Chair of IFRS Foundation Trustees
- Marvin Cheung, IFRS Foundation Trustees
- Jeffrey Lucy, IFRS Foundation Trustees
- Neetasha Rauf, IFRS Foundation Monitoring Board
- Ian Mackintosh (Vice-chairman-elect of IASB, vice-chairman from July 2011)
- Tom Seidenstein, Chief Operating Officer of IFRS Foundation
- Tamara Feldman, Assistant Corporate Secretary and Internal Legal Counsel, IFRS Foundation

- *Other IFRS roundtables and forums*

A list of the IFRS roundtables and forums that were organized in the current and previous year include:

	<u>Date</u>
1. IASB Roundtable on IASB ED on Offsetting (Video conference)	6 April 2011
IASB participants – Barbara Davidson and Christian Kusi-Yeboah	
2. Financial Reporting Forum 2011 – Stay tuned for developments of HKFRS and IFRS	1 March 2011
IASB participants - Dr Zhang Wei-Guo	
3. IASB Roundtable on IASB ED on Hedging and Impairment	21&22 February 2011
IASB participants - Tatsumi Yamada, Martin Friedhoff and Judith Li	
4. IASB Roundtable on IASB ED on Leases	20 December 2010
IASB participants – Paul Pacter and David Humphreys	
FASB participant - Danielle Zeyher	
5. Financial Reporting Forum – Developments in proposed IFRS on Revenue Recognition and Leases	2 September 2010
IASB participants – Tatsumi Yamada and Rees Henry	
6. Financial Reporting Forum - Stay tuned for developments of IFRSs with Chairman of the IFRS Interpretation Committee	22 July 2010
IASB participant - Robert Garnett	
7. Financial Reporting Forum 2010 - Stay tuned for developments of HKFRS and IFRS	16 April 2010
IASB participant - Sir David Tweedie	

Hong Kong's experience and resources in organizing international events

The Institute demonstrated its international leadership with an unprecedented gathering of international standards setters, professionals, financiers, global investors and regulators at major international conference:

- *The 16th World Congress of Accountants*

The Institute hosted the 16th World Congress of Accountants with the theme on Knowledge-based Economy and the Accountant from 18 – 21 November 2002 at the Hong Kong Convention and Exhibition Centre. It was the first World Congress of Accountants held in China. Over 5,000 delegates from about 100 countries and regions attended this event.

Chinese Premier Zhu Rongji officiated the opening ceremony and delivered a speech. A total of three plenary sessions, 13 workshops and two China forums were presented by a prominent line-up of over 70 high-profile speakers from 17 countries during the four-day Congress. Key speakers included

- Sir David Tweedie, Chairman of the IASB,
- Mr. Rene Ricol, President of the IFAC
- Mr. Paul Volcker, Chairman of the Trustees of the IASC Foundation
- Mr. Xiang Huaicheng, Minister of Finance of China and
- Mr. Zhou Xiaochuan, Chairman of the China Securities Regulatory Commission

- *National Standard Setters Meeting*

The Institute hosted the National Standard Setters meeting on 24-25 March 2007, which was attended by about 20 participants and 10 observers from the IASB, EFRAG, IFAC, UK (ASB), USA (FASB), Austria, Australia, New Zealand, Germany, Canada, Japan, France, India, Taiwan, Mexico, South Africa and Hong Kong.

Topics covered in the meeting includes:

- IFRS for SMEs
- Equity and liabilities
- Impairment
- Common control
- Regulated industries
- Conceptual framework
- Revenue recognition.

We took the opportunity to host an informal dinner on 24 March 2007 for the NSS participants. Over 40 people attended the dinner.

Hong Kong is well prepared to serve two years in each of the positions of Vice-Chairman and Chairman and looks forward to providing our professional expertise and experience in the interests of AOSSG Members.