Preface
Revised ~~September 2010~~ April 2015

Effective upon issue

Preface to Hong Kong Financial Reporting Standards

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

COPYRIGHT

CONTENTS

PREFACE TO HONG KONG FINANCIAL REPORTING STANDARDS

Preface to Hong Kong Financial Reporting Standards

This Preface is issued to set out the objectives and due process of the Council of the Hong Kong Institute of Certified Public Accountants (HKICPA) (hereafter referred as the "Council") in respect of setting Hong Kong Financial Reporting Standards (HKFRSs) and to explain the scope, authority and timing of application of HKFRSs. For the purpose of this Preface, the term "Hong Kong Financial Reporting Standards" includes all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and HK (IFRIC) Interpretations, HK Interpretations and HK (SIC) Interpretations (collectively referred to as "Interpretations") approved by Council and currently in issue. It also sets out the relationship between HKFRSs and International Financial Reporting Standards (IFRSs) and the scope and authority of Accounting Guidelines and Accounting Bulletins. The Preface supersedes the Preface revised in October 2004. This Preface does not apply to entities that fulfill the criteria for reporting under the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS) and choose to apply the SME-FRF and SME-FRS. This Preface therefore does not address the due process for setting SME-FRF & SME-FRS.

Introduction

1 Pursuant to section 18A of the Professional Accountants Ordinance (Chapter 50), Council may, in relation to the practice of accountancy, issue or specify any standards of accounting practices required to be observed, maintained or otherwise applied by members of the HKICPA. Approval of HKFRSs and related documents, such as the *Framework for the Preparation and Presentation of Financial Statements (Framework)*, exposure drafts, and other discussion documents, is the responsibility of Council.

2 Council has mandated the Financial Reporting Standards Committee (FRSC) to develop financial reporting standards to achieve convergence with IFRSs issued by the International Accounting Standards Board (IASB). Within this remit, Council permits the FRSC to work in whatever way it considers most effective and efficient and this may include forming advisory sub-committees or other forms of specialist advisory groups to give advice in preparing new and revised HKFRSs.

3 The FRSC is also responsible for providing timely guidance on newly identified financial reporting issues not specifically addressed in HKFRSs or issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop. It thus promotes the rigorous and uniform application of HKFRSs.

4 The HKICPA's Standards & Quality Accountability Board (SQAB) is responsible for reviewing and advising on the HKICPA's overall strategy, policies and processes for setting financial reporting standards. One of the SQAB's main objectives is to give advice to the FRSC on priorities and on major standard-setting projects.

Objectives of Council

5 In 2001, Council adopted the policy of achieving convergence of HKFRSs with IFRSs. Council's objectives in this respect are:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable financial reporting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the capital markets and other users of the information to make economic decisions;

(b) to promote the use and rigorous application of those standards;

(c) to promote, support and enforce compliance with those standards by members of the HKICPA whether as preparers or auditors of financial information; and

(d) to maintain convergence of financial reporting standards with IFRSs.

Scope and authority of HKFRSs

6 Council achieves its objectives primarily by developing and publishing HKFRSs and promoting the use of those standards in general purpose financial statements and other financial reporting. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions. In developing HKFRSs, Council takes into consideration the need to maintain convergence of HKFRSs with IFRSs and consistency with the legal framework.

7 HKFRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They may also set out such requirements for transactions and events that arise mainly in specific industries. HKFRSs are based on the *Framework*, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the *Framework* is to facilitate the consistent and logical formulation of HKFRSs. The *Framework* also provides a basis for the use of judgement in resolving accounting issues.

8 HKFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities, whether organised in corporate or in other forms. They include organisations such as mutual insurance companies and other mutual cooperative entities that provide dividends or other economic benefits directly and proportionately to their owners, members or participants. Although HKFRSs are not designed to apply to not-for-profit activities in the private sector, public sector or government, entities with such activities may find them appropriate.

9 HKFRSs apply to all general purpose financial statements. Such financial statements are directed towards the common information needs of a wide range of users, for example, shareholders, creditors, employees and the public at large. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.

10 A complete set of financial statements includes a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, and accounting policies and explanatory notes. When a separate income statement is presented in accordance with HKAS 1 *Presentation of Financial Statements* (as revised in 2007), it is part of that complete set. In the interest of timeliness and cost considerations and to avoid repeating information previously reported, an entity may provide less information in its interim financial statements than in its annual financial statements. HKAS 34 *Interim Financial Reporting* prescribes the minimum content of complete or condensed financial statements for an interim period. The term 'financial statements' includes a complete set of financial statements prepared for an interim or annual period, and condensed financial statements for an interim period.

11 [not used] ~~In some cases, HKFRSs permit different treatments for given transactions and events. Usually, one treatment is identified as the 'benchmark treatment' and the other as the 'allowed alternative treatment'. The financial statements of an entity may appropriately be described as being prepared in accordance with HKFRSs whether they use the benchmark treatment or the allowed alternative treatment.~~

12 Some HKFRSs permit different treatments for given transactions and events. The objective of setting HKFRSs is to require like transactions and events to be accounted for and reported in a like way and unlike transactions and events to be accounted for and reported differently, both within an entity over time and among entities. Consequently, those transactions and events for which HKFRSs permit a choice of accounting treatment will be reconsidered and will continue to be reconsidered, with the objective of reducing the number of those choices.

13 Statements approved by Council include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this Preface.

14 Interpretations of HKFRSs are to give authoritative guidance on newly identified financial reporting issues not specifically addressed in HKFRSs or issues where unsatisfactory or conflicting interpretations have developed or seem likely to develop in the absence of such guidance.

15 Entities shall apply I~~i~~nterpretations if their financial statements are described as being prepared in accordance with HKFRSs (see paragraph 16 of HKAS 1 *Presentation of Financial Statements (as revised in 2007)*).

16 Interpretations apply to current and future reporting periods from the date of issue or other specified effective date. Transitional provisions that apply on initial application of an I~~i~~nterpretation are specified in the interpretation.

17 An I~~i~~nterpretation becomes inoperative and is withdrawn when a HKFRS or other authoritative document issued by Council that overrides or confirms a previously issued interpretation becomes effective. Those interpretations that would be affected by an authoritative HKICPA document are identified in the Exposure Draft of that document.

18 HKAS 1(as revised in 2007) includes the following requirement:

> "An entity whose financial statements comply with HKFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with HKFRSs unless they comply with all the requirements of HKFRSs."

~~This requirement extends to HKFRSs currently in issue.~~

19 Any limitation of the scope of a HKFRS is made clear in the standard.

Obligation for members of the HKICPA to observe HKFRSs or justify departures

20 Council is committed to promoting and supporting compliance with HKFRSs by members of the HKICPA whether as preparers or auditors of financial information.

21 Council therefore expects members of the HKICPA who assume responsibilities in respect of financial statements to observe HKFRSs.

22 Where this responsibility is evidenced by the association of members' names with such financial statements in the capacity of directors or other officers, the onus will be on them to ensure that the existence and purpose of HKFRSs are fully understood by non-member fellow directors and other officers. Members of the HKICPA should also use their best endeavours to ensure that HKFRSs are observed ~~and that departures found to be necessary are adequately disclosed and explained in the financial statements~~. In this context, members should note that HKAS 1 includes the following requirements:

"19 **In the extremely rare circumstances in which management concludes that compliance with a requirement in a HKFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, the entity shall depart from that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.**

20 **When an entity departs from a requirement of an HKFRS in accordance with paragraph 19, it shall disclose:**

(a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;

(b) that it has complied with applicable HKFRSs, except that it has departed from a particular requirement to achieve a fair presentation;

(c) the title of the HKFRS from which the entity has departed, the nature of the departure, including the treatment that the HKFRS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Framework*, and the treatment adopted; and

(d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement."

23 Members of the HKICPA who act as auditors or reporting accountants should be in a position to justify departures, to the extent that their concurrence with the departures is stated or implied. They are not, however, required to refer in their report to departures with which they concur, provided that adequate disclosure has been made in the notes to the financial statements.

24 Council may enquire into apparent failures by members of the HKICPA to observe HKFRSs or to ensure adequate disclosure of departures there from.

Compliance with a basis or standard of accounting other than HKFRSs

25A Companies incorporated in Hong Kong are required by Part 9 of the Hong Kong Companies Ordinance (Cap. 622 or CO) to prepare annual financial statements which comply with the general requirements of section 380 of that Ordinance, amongst other things ("statutory financial statements"). Specifically, section 380(4)(b) states that the financial statements for a financial year must comply with "the accounting standards applicable to the financial statements", being accounting standards issued or specified by the HKICPA[1].

[1] Source: section 380(8) of the CO and the Companies (Accounting Standards (Prescribed Body)) Regulation (Cap. 622C)

25B In this regard, Council considers that a company incorporated in Hong Kong which is not eligible for, and does not take advantage of, the reporting exemption will be in breach of section 380(4)(b) unless the statutory financial statements of that company contain an explicit and unreserved statement of compliance with HKFRSs as issued by the HKICPA. If a company has not previously included an explicit and unreserved statement of compliance with HKFRSs as issued by the HKICPA in its financial statements then it is required to comply with the requirements of HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* (or Section 35 of the HKFRS for Private Entities, if opting to adopt that HKFRS) in order to comply with the requirements of section 380(4)(b) of the CO. This statement may be in addition to a statement of compliance with a basis or standard of accounting other than HKFRSs provided that the financial statements satisfy the requirements of both accounting frameworks.[2]

25C In all other cases, where a member of the HKICPA assumes responsibilities in respect of financial statements prepared under a basis or standard of accounting other than HKFRSs, the member should observe that other basis or standard of accounting. Accordingly, paragraphs 22 to 24 of this Preface shall apply, as if the references to HKFRSs in those paragraphs are to the other basis or standard of accounting, to members of the HKICPA who assume responsibilities in respect of financial statements prepared under a basis or standard of accounting other than HKFRSs, as they apply to members of the HKICPA who assume responsibility in respect of financial statements prepared under HKFRSs.

Coordination with international due process

26 Council understands that close co-ordination between the HKICPA's and IASB's due processes is important to the success of achieving convergence of HKFRSs with IFRSs. Council has aligned the HKICPA's due process, including the timing of issuing exposure drafts, standards and interpretations, as closely as possible with the IASB's due process as a result of its convergence policy. Council has published in June 2006 *Information Paper: Setting HKFRSs*[3] which outlines the step Council plans in supporting the development of IFRSs and the implementation of HKFRSs in Hong Kong. This Information Paper makes reference to the *Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard Setters* issued by the IASB in February 2006 which identifies a range of activities that the IASB and other accounting standard-setters, including the HKICPA, believe should be undertaken by them in the interests of facilitating the ongoing convergence with IFRSs. A copy of the Information Paper and a copy of the IASB Statement of Best Practice are attached as Appendix 1 and Appendix 2, respectively, to this Preface for reference.

---

2 For example, if an existing IFRS reporter wishes to assert dual compliance with HKFRSs and IFRSs, it would be necessary that no material changes to accounting policies or reported amounts were made as a result of applying the requirements of HKFRS 1 on transition to HKFRSs.

Similarly, if a company has not previously included an explicit and unreserved statement of compliance with IFRSs as issued by the IASB in its financial statements and wishes to do so in addition to continuing to comply with HKFRSs, it would be necessary that no material changes to accounting policies or reported amounts were made as a result of applying the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

3 This Information Paper was published prior to the issue of this revised Preface to HKFRSs and, accordingly, its content does not take into account the changes made in this revised Preface to HKFRSs.

Due process

27 HKFRSs are developed through a due process that involves members and member practices of the HKICPA, listed companies in Hong Kong, the stock exchange, regulatory and legal authorities, academics and other interested individuals and organisations.

28 The FRSC consults the SQAB on major projects, agenda decisions and work priorities. The FRSC identifies potential agenda items for which timely guidance can be provided. Due process for projects may involve any or all of the following steps which are conducted by the FRSC except for noted otherwise:

(a) identifying and reviewing all the issues associated with an exposure draft or a draft interpretation issued by the IASB for possible adoption in Hong Kong or any other topics and considering the application of the *Framework* to the issues, if needed;

(b) studying pronouncements of the IASB and other standard setting bodies and accepted industry practices about the issues;

(c) consulting the SQAB about the advisability of adding the topic to the FRSC's agenda;

(d) forming an advisory group to give advice to the FRSC on the project;

(e) publishing for public comment a discussion document and, in the case of the IASB issuing a discussion document, issuing an invitation to comment in Hong Kong on that discussion document with a request for comment before the comment deadline imposed by the IASB so as to allow the FRSC a reasonable time to consider the comments before Council makes a submission to the IASB;

(f) publishing for public comment an exposure draft or a draft interpretation and, in the case of the IASB issuing an exposure draft or a draft interpretation, issuing an invitation to comment in Hong Kong on that IASB exposure draft or draft interpretation with a request for comment before the comment deadline imposed by the IASB so as to allow the FRSC a reasonable time to consider the comments before Council makes a submission to the IASB;

(g) publishing within an exposure draft a basis for conclusions;

(h) considering all comments received within the comment period on discussion documents, exposure drafts and draft interpretations and those received in response to the Hong Kong invitation to comment on the IASB documents and, when appropriate, preparing a comment letter to the IASB;

(i) following publication of the finalised IFRS or Interpretation of IFRS, considering the changes made, if any, by the IASB and adopting the finalised IFRS or Interpretation of IFRS in Hong Kong with the same effective date;

(j) approving a standard or an Interpretation, including that converged with the equivalent IFRS or Interpretation of IFRS, by Council; and

(k) publishing within a standard a basis for conclusions, if appropriate, explaining how the conclusions were reached and giving background information that may help users of HKFRSs to apply them in practice or, in the case of a standard that is converged with IFRS, publishing within the standard the IASB Basis for Conclusions with an explanation of the extent to which Council agrees with the IASB Basis for Conclusions so as to enable users to understand any changes made to the IFRS.

29 On occasion, the FRSC may consult and raise issues specific to Hong Kong proactively with the IASB.

Timing of application of HKFRSs

30 HKFRSs apply from a date specified in the document. New or revised HKFRSs set out transitional provisions to be applied on their initial application.

31 Council has no general policy of exempting transactions occurring before a specific date from the requirements of new HKFRSs. When financial statements are used to monitor compliance with contracts and agreements, a new HKFRS may have consequences that were not foreseen when the contract or agreement was finalised. For example, covenants contained in banking and loan agreements may impose limits on measures shown in a borrower's financial statements. Council believes the fact that financial reporting requirements evolve and change over time is well understood and would be known to the parties when they entered into the agreement. It is up to the parties to determine whether the agreement should be insulated from the effects of a future HKFRS, or, if not, the manner in which it might be renegotiated to reflect changes in reporting rather than changes in the underlying financial condition.

32 Exposure drafts are issued for comment and their proposals are subject to revision. Until the effective date of a HKFRS, the requirements of any HKFRS that would be affected by proposals in an exposure draft remain in force.

Relationship with IFRSs

33 Although Council has a policy to achieve convergence of HKFRSs with IFRSs, Council may consider it appropriate to include additional disclosure requirements in a HKFRS or, in some exceptional cases, to deviate from an IFRS. Each HKFRS issued by Council contains information about the extent of compliance with the equivalent IFRS. Where the requirements of a HKFRS and an IFRS differ, the HKFRS should be followed by entities reporting within the area of application of the HKFRSs.

Scope and application of Accounting Guidelines

34 Accounting Guidelines are those guidelines that have been approved for issue by Council.

35 Accounting Guidelines have effect as guidance statements and indicators of best practice. They are persuasive in intent. Unlike HKFRSs, Accounting Guidelines are not mandatory on members of the HKICPA but are consistent with the purpose of HKFRSs in that they help define accounting practice in the particular area or sector to which they refer. Therefore, they should normally be followed and members of the HKICPA should be prepared to explain departures if called upon to do so.

Scope and application of Accounting Bulletins

36 Accounting Bulletins are informative publications issued by the FRSC on subjects of topical interest and are intended to assist members of the HKICPA or to stimulate debate on important accounting issues. They do not require the approval of Council and they do not have the same authority as either HKFRSs or Accounting Guidelines.

Information Paper

Setting Hong Kong Financial Reporting Standards

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Comments on any part of this paper can be sent by mail, fax or e-mail to:

Standard Setting Department
Hong Kong Institute of CPAs
37/F., Wu Chung House
213 Queen's Road East
Hong Kong

Fax number (+852) 2865 6776
E-mail: commentletters@hkicpa.org.hk

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INFORMATION PAPER
SETTING HONG KONG FINANCIAL REPORTING STANDARDS

Contents | **Paragraph Numbers**

INTRODUCTION

1. Hong Kong Financial Reporting Standards ("HKFRSs")[1] were fully converged with International Financial Reporting Standards ("IFRSs") with effect from 1 January 2005. This convergence arose from a decision by the Council of the Hong Kong Institute of Certified Public Accountants ("Council") in 2001, after broad discussion with interested parties. With the international convergence programme fully in place following the removal of a legal impediment through the amendment to the Companies Ordinance ("CO") in 2005, and the Statements of Standard Accounting Practice superseded, Council has taken the view that the end of the first phase of the convergence programme is an appropriate time to take stock.

2. In converging with IFRSs, Hong Kong stands with other key capital markets such as Europe. In all, more than 100 countries have converged with IFRSs for all or some companies or are in the process of doing so. Key jurisdictions that have a convergence programme in place but have not completed their convergence include the United States (where the IASB and the US Financial Accounting Standards Board are working to align IFRSs and US GAAP), Canada (which plans to require listed companies to use IFRSs within five years) and Japan (which has a joint programme for convergence with the IASB). Further, Mainland China recently released its Chinese Accounting Standards System that brings about substantial convergence with IFRSs from 2007 for listed companies.

3. In setting its convergence policy in 2001, Council was aware that HKFRSs that were to be converged with IFRSs would be more exacting than necessary for many smaller companies required to report under the CO. Accordingly, Council decided to develop reporting requirements for Small and Medium-sized Entities ("SMEs") that would better meet the needs of users of SME financial statements. This decision resulted in Council releasing the SME Financial Reporting Framework and Financial Reporting Standard ("SME-FRF & FRS") in August 2005 and effective for reporting periods starting on or after 1 January 2005.

4. Concurrently with the developments at the Institute, there have been legislative developments. Since March 2002, the Joint Government/HKICPA Working Group to Review the Accounting and Auditing Provisions of the Companies Ordinance ("JWG") has been reviewing the relevant provisions of the CO, including the Tenth Schedule. The Tenth Schedule presently comprises a detailed list of disclosure requirements that were first developed in an era before the Institute had started to promulgate accounting standards[2]. While the Tenth Schedule has been amended over the years, it has not been able to keep pace with the very significant developments in financial reporting culminating in the issuance of fully-converged HKFRSs. HKFRSs now contain an extensive set of the recognition, measurement and disclosure requirements expected in modern financial statements. Companies are required to comply with HKFRSs, including their disclosure requirements, by virtue of sections 123 and 126 of the CO requiring financial statements to give a true and fair view or receive a qualified audit opinion. As a consequence of these developments, there is a perception that most of the items on the detailed list of disclosures in the Tenth Schedule are either redundant or outdated.

---

[1] HKFRSs comprise all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Hong Kong Interpretations approved by the Council of the Hong Kong Institute of Certified Public Accountants.

[2] References in this paper to standards are to be read broadly as including interpretations.

5. Against this background, the JWG has recommended the repeal of the Tenth Schedule in its present form. One significant benefit of removing the overwhelming majority of the financial reporting disclosure requirements from the Tenth Schedule is that the existing potential for differences between the Tenth Schedule and HKFRSs will disappear. Further, it will be easier to amend HKFRSs than the CO to take account of constantly evolving financial reporting, as HKFRSs are non-statutory standards. The JWG also recommends the retention of a small number of items in a modernised version of the Tenth Schedule regarding disclosures with a significant public interest or corporate governance dimension, such as auditors' remuneration, which are not presently required in HKFRSs. Other items proposed to be included in the modernised Tenth Schedule, which have no equivalent in HKFRS, include the aggregate amount of any outstanding loans to directors and employees to acquire shares in their employing company made under the authority of sections 47C(4)(b) and (c) of the CO and information regarding a company's ultimate parent undertaking as is currently required under section 129A of the CO.

6. With full convergence with IFRSs achieved, Council determined that the second phase of its convergence programme should address the roles it should perform now that the converged standards are in place. These roles include maintaining the convergence of its process and product, supporting the effective implementation of the converged standards and facilitating the transmission of stakeholders' comments and concerns to the international standard setters.

7. Council views its future standard-setting role as including being a trusted and effective conduit between the Hong Kong reporting community and the IASB. In this role, Council proposes to work with stakeholders to identify issues and then to transmit those issues to the IASB. Council will also seek ways to improve the general understanding and application of HKFRSs as a basis for supporting Hong Kong's position as an international financial centre.

8. This Paper is structured as follows. Phase I outlines the existing structure and processes in Hong Kong, while Phase II outlines the steps Council plans in supporting the development of IFRSs and the implementation of HKFRSs in Hong Kong.

9. Council intends to issue further Information Papers to address the following standard-setting issues:

   a. whether Council should set financial reporting standards for public sector and not-for-profit entities; and

   b. the framework and process for the maintenance and update of the SME-FRF & FRS.

PHASE I: PRESENT STRUCTURE AND PROCESSES

10. The standard-setting structure and processes is summarised in the Preface to Hong Kong Financial Reporting Standards ("the Preface"). Firstly, the Preface notes Council's role as the statutory financial reporting standard setter as follows:

> "1. Pursuant to section 18A of the Professional Accountants Ordinance (Chapter 50), Council may, in relation to the practice of accountancy, issue or specify any standards of accounting practices required to be observed, maintained or otherwise applied by members of the HKICPA. Approval of HKFRSs and related documents, such as the *Framework for the Preparation and Presentation of Financial Statements* (*Framework*), exposure drafts, and other discussion documents, is the responsibility of Council."

11. The Preface then identifies the structures Council has established for the standard-setting process and its oversight:

> "2. Council has mandated the Financial Accounting Standards Committee (FASC)[3] to develop accounting standards to achieve convergence with the IFRSs issued by the International Accounting Standards Board (IASB). Within this remit, Council permits the FASC to work in whatever way it considers most effective and efficient and this may include forming advisory sub-committees or other forms of specialist advisory groups to give advice in preparing new and revised HKFRSs."
>
> …….
>
> "4. The HKICPA's Standard-Setting Steering Board (SSSB) is responsible for reviewing and advising on the HKICPA's overall strategy, policies and processes for setting accounting standards. One of the SSSB's main objectives is to give advice to the FASC on priorities and on major standard-setting projects."
>
> …….
>
> "31. Although Council has a policy to achieve convergence of HKFRSs with IFRSs, Council may consider it appropriate to include additional disclosure requirements in a HKFRS or, in some exceptional cases, to deviate from an IFRS. Each HKFRS issued by Council contains information about the extent of compliance with the equivalent IFRS. Where the requirements of a HKFRS and an IFRS differ, the HKFRS should be followed by entities reporting within the area of application of the HKFRSs."

12. The SSSB's terms of reference in relation to financial reporting standards require it to:

    a. review from time to time the Institute's overall strategy, policies and processes in respect of setting financial reporting standards, taking into account, when relevant, factors such as:

        i. the need to attain or maintain international comparability both in the standards applicable and in the processes applied in setting those standards;

[3] Since the Preface was released, the Financial Accounting Standards Committee (FASC) has been reconstituted as the Financial Reporting Standards Committee (FRSC).

ii. the need to consult with stakeholders in the standards in Hong Kong and relevant professional and standard-setting bodies internationally;

iii. the need to ensure adequate publicity and stakeholders' access to information on the Institute's overall strategy, policies and processes in respect of setting standards; and

iv. the need to have regard to the legislative and regulatory framework in Hong Kong;

b. make recommendations to Council after consulting with the Financial Reporting Standards Committee; and

c. identify emerging issues and to give advice on agenda decisions and work priorities.

13. The SSSB meets once or twice a year to receive reports on all standard-setting activities and to address other issues as they arise. Council has requested the SSSB to review its Terms of Reference at its next meeting and, in doing so, to take account of the completion of Phase 1 of the convergence programme.

14. The FRSC's terms of reference require it to:

a. prepare, in accordance with the due process approved by Council, new and revised Accounting Standards, Interpretations and accounting guidance for adoption by Council, taking into consideration the need to achieve convergence, as far as practicable, with International Financial Reporting Standards;

b. develop and issue Accounting Bulletins and Discussion Papers to provide information and/or guidance to members or to stimulate debate on important accounting issues;

c. advise Council in connection with legislation, regulations and other matters directly related to accounting, financial reporting and international convergence;

d. gather and communicate information relating to financial reporting between stakeholders in Hong Kong and the IASB;

e. undertake research work for financial reporting projects committed by Council;

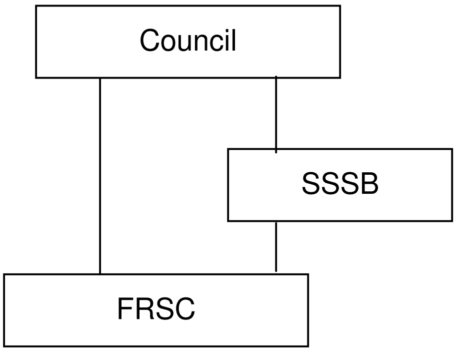
f. develop comments on the consultative documents issued by the IASB and other consultative documents relating to financial reporting for consideration by Council;

g. identify issues that might require interpretations and request the IFRIC or the IASB to address the issues and, when needed, develop local interpretations for adoption by Council; and

h. make Council or other relevant Committees aware of any particular educational needs and, when needed, assist in preparing educational materials.

15. The FRSC meets every month and also addresses emerging issues between meetings. To enable interested parties to follow its activities, it publishes a summary of each meeting. Current standard-setting activities are also summarised in the Institute's TechWatch summary of activities and events.

16. The relationship between the bodies identified above can be illustrated as follows.



17. In adopting its convergence policy, Council was aware that it needed to take a different approach to the appointment of members of the SSSB and the FRSC. One effect of the convergence programme is that Council has transferred the responsibility for detailed oversight and setting of HKFRSs to an international body operating within an extensive oversight structure. By stepping back from the role of primary standard setter, Council took the view that membership of the SSSB and FRSC should be broadened to ensure that due process was followed and that international convergence was maintained for the benefit of Hong Kong as a major financial centre. This decision had regard to the recommendations by the Standing Committee on Company Law Reform in the Consultation Paper on Phase I of the Corporate Governance Review that the membership of the then Financial Accounting Standards Committee should be broadened to include the representatives of stakeholders affected by financial statements. This broadening of membership and stepping back from the role of primary standard setter is the basis for Council's decision that an oversight body for the setting of HKFRSs separate from the Institute has no meaningful role and therefore is not required.

18. In appointing members to the SSSB and the FRSC, Council considers the views of existing SSSB and FRSC members and seeks comments and nominations from other interested parties. It seeks to maintain a balance between preparers, auditors and users of financial statements and the broader reporting community. This breadth of membership reflects the fact that financial reporting standards are a matter for the Hong Kong business community and that the impact of HKFRSs is not limited to certified public accountants that are preparers or auditors of financial statements. HKFRSs affect users of financial statements including regulators, preparers and other users who may not be certified public accountants. The following table illustrates the diversity of membership of the SSSB and FRSC in 2006.

Category	SSSB	FRSC
Big 4 firms	1	5*
Small and medium–sized practices	1	4
Professional accountants in business	3*	2
Representatives of regulators, government and, industry bodies and academics	7	9
TOTAL	12	20
Percentage of members nominated by relevant stakeholders	58%	45%

* The Chairmen of the SSSB and FRSC are appointed without regard for their background.

19. The current standard-setting due process is described in the Preface as follows.

“23. HKFRSs and Interpretations of HKFRSs are developed through a due process that involves members and member practices of the HKICPA, listed companies in Hong Kong, the stock exchange, regulatory and legal authorities, academics and other interested individuals and organisations.”

“24. The FASC consults the SSSB on major projects, agenda decisions and work priorities. The UII[4] assists the FASC in identifying potential agenda items for which timely guidance can be provided. Due process for projects normally, but not necessarily, involves the following steps:

a. the staff are asked to identify and review all the issues associated with an exposure draft or a draft interpretation issued by the IASB for possible adoption in Hong Kong or any other topics and to consider the application of the Framework to the issues, if needed;

b. study of pronouncements of the IASB and other standard-setting bodies and accepted industry practices about the issues;

c. consulting the SSSB about the advisability of adding the topic to the FASC or UII's agenda;

d. formation of an advisory group to give advice to the FASC on the project;

e. publishing for public comment a discussion document;

f. publishing for public comment an exposure draft or a draft interpretation;

g. publishing within an exposure draft a basis for conclusions;

4 Council approved the proposal from the FRSC that urgent issues and interpretations are best addressed by the FRSC itself rather than a sub-committee and disbanded the UII in June 2005.

h. consideration of all comments received within the comment period on discussion documents, exposure drafts and draft interpretations and, when appropriate, preparing a comment letter to the IASB;

i. following publication of the finalised IFRS or Interpretation of IFRS, consideration of the changes made, if any, by the IASB;

j. approval of a standard or an Interpretation by Council; and

k. publishing within a standard a basis for conclusions, if appropriate, explaining how the conclusions were reached and to give background information that may help users of HKFRSs to apply them in practice."

"24A. On occasion, the FASC may consult and raise issues specific to Hong Kong proactively with the IASB."

20. Council has requested the FRSC to review the Preface to take account of the completion of Phase I of the convergence programme as, in practice, the short comment periods on Exposure Drafts allowed by the IASB and the IFRIC (generally 120 days for a Standard and 60 days for an Interpretation), has resulted in a curtailed due process commencing at step (f). Exposure Drafts of changes to IFRSs are usually issued as Invitations to Comment within days of the IASB issuing an Exposure Draft or an Invitation to Comment, to allow the maximum amount of time for stakeholders to develop their views. Standards and amendments to Standards are generally considered by the FRSC within a month after being issued by the IASB, to enable timely consideration and forwarding to Council for approval. The present convergence policy requires an HKFRS to have the same effective date as the equivalent IFRS.

21. Council's present objective is to maintain convergence with IFRSs without losing the ability within Hong Kong to contribute to the international standard-setting process. Council's aim is to ensure that issues of concern to Hong Kong are understood by the IASB and addressed appropriately in IFRSs. Council's focus is to ensure that the IASB develops international standards of as high a quality as possible so that HKFRSs that are converged with IFRSs are automatically of high quality.

22. While considering that HKFRSs should apply to all general purpose financial statements giving a true and fair view, Council does not take the view that HKFRSs are necessarily appropriate for all purposes. For example, Council took note of the special reporting needs of small and medium-sized entities ("SMEs") in issuing the SME Financial Reporting Framework and Financial Reporting Standard (SME-FRF & FRS) in 2005. Further, Council is aware that prudential and other regulators may require regulated entities to submit information to support regulatory objectives that are additional to, and even measured or recognised on different bases from, that provided in general purpose financial statements. Issues related to the oversight and setting of financial reporting standards for SMEs will be addressed in a separate paper.

PHASE II: SUPPORTING IMPLEMENTATION

23. Supporting implementation of HKFRSs takes a number of forms. First, HKFRSs need to remain converged with IFRSs through both product and process. Second, Hong Kong needs to be positioned to ensure that issues of importance to Hong Kong are addressed by the IASB. This requires participation in international processes at as many levels as considered appropriate.

24. The IASB has recently released a Statement of Best Practice: *Working Relationships between the IASB and other Accounting Standard-Setters*. Key points in this Statement support Council's aims in Phase II of the international convergence programme and are discussed in the following sections. In particular, the Statement expects Accounting Standard-Setters such as the Institute to:

    a. play a key part in the development of IFRSs by providing a conduit between the IASB and stakeholders in Hong Kong;

    b. assist stakeholders in understanding proposals for developments in IFRSs and encourage stakeholders to comment on IASB consultative documents both to the Institute and to the IASB;

    c. prepare its own comments on IASB consultative documents;

    d. monitor the work of the IASB so that conceptual differences of opinion can be conveyed to the IASB as early as possible in the life of a project;

    e. work with other Accounting Standard Setters on issues of common interest; and

    f. consider opportunities provided by the IASB to participate in IASB projects or to provide staff assistance on a specific IASB project.

Convergence of HKFRSs with IFRSs – product convergence

25. Product convergence refers to the convergence of the content of each HKFRS with the equivalent IFRS. Product convergence of HKFRSs with IFRSs is an "all or nothing" concept. IAS 1 *Presentation of Financial Statements*, paragraph 14, states that "financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs". It follows that the only changes to IFRSs that are generally possible while maintaining convergence are limited to mandating additional disclosures or removing options in IFRSs. Changes to recognition or measurement requirements usually result in a failure of convergence.

26. In setting financial reporting standards for Hong Kong as an international financial centre, Council took note of the many reasons put forward for converging with IFRSs. These reasons include:

    a. responding to the increasingly global business environment and the consequent need for entities to be able to present financial statements that are comparable with those in other jurisdictions;

    b. reducing entities' costs of capital by ensuring that suppliers of funds and purchasers of goods and services understand the financial position and performance of the entity regardless of location of the parties to any transaction;

c. reducing financial analysis costs through analysts not having to restate information to a common basis and only needing to understand a single set of financial reporting standards;

d. reducing financial reporting costs for companies operating in more than one jurisdiction;

e. improving the quality of global financial reporting; and

f. reducing the cost of setting standards and ensuring that the skills available to develop and apply financial reporting standards are utilised efficiently.

27. Some hold the view that jurisdictions should acknowledge that IFRSs are not perfect and that only the 'best' standards should be adopted by a jurisdiction. Those who make this comment rarely note that the suite of standards in their home jurisdiction is also less than perfect. Council has taken the view that the benefits of convergence globally and for Hong Kong as a major financial centre outweigh the (arguably) better financial reporting that would result from selecting the 'best' standards from a range of jurisdictions. Council is also aware that such a process of standard selection would produce standards that are likely to be inconsistent and incomplete and reflect the biases of the group making the selection rather than being based on a consistent framework.

28. Some have suggested that the convergence programme be amended to give entities more time to understand a new standard before they are required to apply it. The compliance requirement in IAS 1 means that entities can only claim compliance with IFRSs if they comply with all standards that are effective at the date of preparing the financial statements. If Council were to extend the application date for any HKFRS equivalent to an IFRS, users of financial statements could no longer assume convergence of HKFRSs with IFRSs, thus losing the benefits of the convergence programme.

29. Council is aware that some do not support the convergence of HKFRSs with IFRSs for reasons that include:

a. the adoption of an external set of financial reporting standards is not consistent with the legal autonomy of a jurisdiction;

b. the international standard setter cannot take account of the unique circumstances of each jurisdiction. An example of this in Hong Kong is the special circumstances surrounding land leases; and

c. private companies do not anticipate any benefits from international convergence and are impacted by increased costs of preparing financial statements.

30. Council proposes to maintain the convergence of HKFRSs with IFRSs while retaining the power to set financial reporting standards in Hong Kong at this time. Although some jurisdictions are adopting IFRSs, Council considers that Hong Kong should retain the flexibility to set different standards for different groups such as SMEs and the public sector. As an independent, albeit converged, standard setter, Council anticipates that it will retain the skills and ability to influence the future direction of IFRSs.

31. Council is aware that many smaller entities do not perceive benefits in the convergence of HKFRSs with IFRSs. This was one impetus for the development of the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & FRS). The only way to avoid unlisted companies having to apply all the requirements of HKFRSs would be to extend the SME-FRF & FRS or to establish a framework and suite of financial reporting standards for larger unlisted companies. Council anticipates that the IASB's SME project will reduce the reporting burden for many unlisted entities. Therefore, Council will carefully examine the IASB's proposals as they emerge with the aim of reducing reporting requirements, where practicable, while minimising any difficulties arising from having multiple sets of standards.

Convergence of HKFRSs with IFRSs – process convergence

32. Process convergence relates to the need to align the timing of issuing Exposure Drafts, Standards and Interpretations in Hong Kong as closely as possible with the timing of issuing Exposure Drafts, Standards and Interpretations by the IASB. The benefits of aligning the timing of the issuance of Exposure Drafts, Standards and Interpretations include:

    a. stakeholders in Hong Kong are able to comment on international Exposure Drafts while they are still under consideration by the IASB, thus enabling the views of Hong Kong stakeholders to be heard before proposals are finalised; and

    b. process convergence is necessary to ensure product convergence. If a Standard or Interpretation is issued in Hong Kong after it is issued internationally, entities in Hong Kong may not be able to apply that Standard or Interpretation until after the international application date.

33. Council has aligned the Institute's due process with the international due process as a result of its convergence policy. Probably the greatest concern with the existing due process is the short time available for stakeholders to comment on Exposure Drafts. Council notes that stakeholders would be better positioned to comment in the time available if they were to follow the debate as issues develop so that they understand the issue before an Exposure Draft is issued. This issue is discussed further below.

34. As Council attempts to reflect the views of its constituency in the comments it sends on IASB Exposure Drafts, the comment period in Hong Kong is constrained by the IASB comment period (usually 120 days). Maintaining convergence also limits the potential steps in the due process (such as the preparation of a discussion document) to the documents issued by the IASB.

35. Council notes that its due process also needs to take account of the development of domestic requirements that are outside the convergence programme. The most notable domestic development in recent years is the issuance of the SME-FRF & FRS. Council has asked the FRSC to consider separating its published due process between international convergence issues and domestic financial reporting issues (although developing domestic Standards or Interpretations other than for SMEs is not expected). Clearly identifying a domestic due process would clarify that an extended due process with additional consultations may be appropriate for major domestic projects, such as that followed in developing the SME-FRF & FRS.

Encouraging stakeholder participation in the standard-setting process

36. Standard setters in many jurisdictions are experiencing reduced participation by stakeholders in the setting of financial reporting standards. Possible reasons for this apparent lack of interest include that stakeholders may consider that:

    a. there are too many requests for comments, and they do not have the time to participate;

    b. they do not have the skills to comment now that standards are complex;

    c. the comment period is too short;

    d. the standard setters have already made their decisions and commenting is a waste of time; and

    e. the standard setters will only listen to comments from major players such as regulators, large companies and accounting firms, so there is no point in other people commenting.

37. Standard setters are affected by the rapid rate of change as much as businesses. Even if a suite of standards were perfect at one point in time, those standards would have to be revised and new standards developed to address new and changing events and transactions. Add to that the need to improve standards by removing options, developing better treatments and addressing issues more specifically, and it becomes likely that financial reporting standards will continue to evolve. It is also the case that transactions are becoming increasingly complex as they seek to address more issues for the parties to the transaction. Complex transactions frequently require complex financial reporting treatments such as the separation into components of compound financial instruments.

38. Council is aware that some stakeholders are concerned about the amount of change in the last few years and notes that the rate of change associated with the final implementation of the international convergence programme is unlikely to continue. Now that convergence has been achieved, Council expects to only issue a few new Standards and Interpretations each year in its process of maintaining convergence.

39. Council is conscious that the short comment period on Exposure Drafts may make it difficult for some to participate in the consultation process. Because Exposure Drafts usually have a long gestation period, it is possible for stakeholders to follow the development of an issue through various media. For example, the IASB undertakes a number of steps to assist stakeholders to follow its standard-setting activities, including:

    a. holding all technical meetings in public to enable stakeholders to observe the IASB's deliberations;

    b. developing technological solutions such as web-casting meetings to reduce the need to travel to the IASB's meeting location to observe its meetings;

    c. providing summaries for observers on its website that identify how the IASB will be addressing each topic on the agenda for each meeting;

    d. providing summaries of each project on the IASB's active agenda; and

e. providing a report after each meeting describing the outcomes of that meeting.

However, Council is not aware of the extent to which stakeholders have the time or inclination to follow the IASB's deliberations in the lead up to the issuance of an Exposure Draft.

40. Those who are reluctant to comment on Exposure Drafts often feel that their practical input will not be appreciated. Standard setters are constantly seeking input from those stakeholders with the experience to see the practical ramifications of a proposal and make suggestions for improvements or explain why the proposals are impracticable. Further, regulators and practitioners do not have a detailed understanding of the practical impact of standards and standard setters rely on preparers to share their special expertise.

41. Although standard setters consider all the relevant issues that they can identify as part of the process of developing an exposure draft, this does not mean that standard setters are not prepared to reconsider the proposals in the exposure draft. An analysis of differences between exposure drafts and the resulting standards shows that a standard may be significantly different from the exposure draft because of comments that identify the inappropriateness or impracticability of the proposal. Indeed, there are cases where an exposure draft has not led to a standard or has led to further exposure because of the comments received.

42. If commenting on exposure drafts can affect the resulting standard, the issue becomes how to elicit comments from preparers and users of financial reporting standards that address the needs of standard setters. Standard setters are seeking informed comment from people who have considered the issues from both a theoretical perspective and a practical perspective. Theoretical issues include whether the proposals conform to the *Framework*, and whether they are a complete and consistent solution to the issue being addressed. Practical issues include whether the proposals can be followed by preparers, can be audited and provide more useful information than that previously provided, after considering the costs and benefits of the proposal. Standard setters also seek well-articulated reasons for the views expressed.

43. Council plans to devote more resources to explaining proposals to stakeholders during the development of financial reporting standards in order to hear their views and reflect their comments. Council will be considering, on a case-by-case basis:

a. assisting stakeholders in following the international debates in the lead up to an exposure draft by highlighting developments in key projects;

b. providing a summary of the key points of each exposure draft;

c. presenting seminars outlining and analysing the proposals in an exposure draft;

d. holding meetings or roundtables to hear views on the exposure draft;

e. establishing an advisory group to assist in explaining the exposure draft; and

f. discussing the proposals with key industry groups.

44. Council will be asking the FRSC to maintain its role as the interface between Hong Kong stakeholders and the IASB. Council will carefully consider a well-argued case

for resources necessary to develop additional services for stakeholders if such a case is presented by the FRSC.

Influencing international financial reporting activities

45. Council is very aware of the need to maintain a high standard-setting profile internationally. It is in the interests of all those using HKFRSs that Hong Kong is a well-respected participant in the development of IFRSs rather than blindly adopting IFRSs. A well-articulated concern about a proposal in an exposure draft or a provision of an international standard from a party respected internationally is more likely to receive attention from the IASB or the IFRIC than a poorly explained issue from an unknown party.

46. Hong Kong currently has a number of representatives in the international financial reporting arena, including representatives on :

   a. the IASB's oversight body, the IASCF;

   b. the IASB's Standards Advisory Council ("SAC");

   c. the IASB's Performance Reporting Working Group; and

   d. the IASB's SME Working Group.

47. The *Due Process Handbook for the IASB* was issued in April 2006 and describes six stages of standard-setting. Each of the stages is briefly discussed and opportunities for parties external to the IASB to participate in each stage are identified.

   a. *Setting the agenda*: the IASB selects agenda items from issues identified by staff or raised by stakeholders and consults with the SAC and financial reporting standard setters such as the FRSC. Stakeholders can participate by suggesting issues for the IASB to address, with reasons why the issue deserves attention. Suggestions can be sent directly to the IASB, or to the SAC or the FRSC for forwarding on to the IASB.

   b. *Project planning*: the IASB decides whether to conduct a project alone or jointly with another standard setter and may establish a working group. The IASB advertises working group vacancies, and membership of a working group gives input into the development of the project. Council monitors these vacancies and identifies potential members.

   c. *Development and publication of a discussion paper*: a discussion paper is normally issued on a major new topic. Stakeholders can follow the technical debate during the development stage by reading material provided by the IASB such as notes for observers and meeting summaries. If the IASB issues a discussion paper, it is still open to the direction it should take and the discussion paper provides an opportunity for stakeholders to explain to the IASB where they agree with its thinking and where they disagree and the reasons for their views. The FRSC seeks stakeholders' views on discussion papers for inclusion in Council's comments to the IASB.

   d. *Development and publication of an exposure draft*: the exposure draft is the IASB's main vehicle for public consultation. By the time of issuing an exposure draft, the IASB has considered the relevant issues in great detail. To be effective in changing a proposal, disagreements need to be based on carefully argued conceptual grounds, or detailed explanations of practical issues and their consequences, or a cost-benefit analysis. The FRSC seeks stakeholders' views on exposure drafts for inclusion in Council's comments to the IASB.

e. *Development and publication of a standard*: the IASB reviews the exposure draft in the light of comments received and posts developments on its website. The IASB may expose revised proposals for public comment where significant changes are made to the original proposals. In such cases, the FRSC seeks stakeholders' views on any invitations to comment for inclusion in Council's comments to the IASB.

f. *Procedures after a standard is issued*: IASB members and staff meet with interested parties to help understand unanticipated issues related to the practical implementation and potential impact of its proposals. The IASB may also initiate studies in the light of the review of the standard's application, changes in the financial reporting environment and comments from interested parties.

48. In addition to commenting during the IASB's due process, other ways in which Hong Kong can participate internationally and which Council is considering include:

a. continuing to send the SSSB chairman and/or the FRSC chairman to international meetings to provide personal representations of Hong Kong issues and concerns;

b. continuing to nominate appropriate individuals to IASB bodies, including the IASCF, the Standards Advisory Council, the IFRIC, working parties and project teams;

c. providing extensive and well-considered comments on all documents issued by the IASB. Comment letters are already sent on key issues, but further input from all stakeholders expanding the issues to be addressed is welcomed;

d. bringing issues that are of importance to Hong Kong to the attention of the IASB or the IFRIC, as is already done through formal and informal channels;

e. supporting the development of, and working with, regional bodies with a view to developing a "regional voice" to balance the views from Europe and North America;

f. conducting in-depth monitoring of the work programmes of the IASB and the IFRIC, with a view to advising the IASB of concerns while approaches to issues are being developed; and

g. inviting members of the IASB and its related bodies to Hong Kong. Council encourages and financially supports visits from IASB members.

49. For principles-based standards to work effectively, all stakeholders need to understand the purpose and content of the standards sufficiently for their purposes. The Institute provides a range of Continuing Professional Development activities and has arranged access for members to activities provided by other educational suppliers. Council acknowledges that the Institute has a part to play, but takes the

view that stakeholders need to take ultimate responsibility for their own education and the development of their knowledge and understanding.

Supporting the implementation of HKFRSs

50. Council has a number of roles with differing objectives in the implementation of HKFRSs:

a. *as standard setter*, Council must ensure that any implementation support does not inadvertently provide guidance that will be seen as official interpretations of HKFRSs and thus damage the convergence of HKFRSs with IFRSs;

b. *as provider of member services*, Council must ensure that its members are equipped to apply HKFRSs appropriately; and

c. *as regulator of its members*, Council must ensure that members that do not apply HKFRSs appropriately are subject to appropriate regulatory action.

51. The key to success in dealing with these varying roles is to provide members with sufficient education and training that they can rise to the challenges posed by principles-based standards. Principles-based standards require preparers and auditors to move from seeking directive rules to accepting that their role is now to understand transactions and then account for them by applying the relevant principles, requirements and guidance in the *Framework* and standards. Principles-based standards require users of financial statements to accept that if an entity's results are faithfully represented in the financial statements, the entity may show profits that are more volatile than under rules-based standards. That is, users of financial statements must accept that even in normal circumstances, a company's profits can move both up and down.

Appendix 2

Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters

---

February 2006

Statement of Best Practice

Contents

1 Background

1.1 This Statement records an understanding between the International Accounting Standards Board[1] (IASB) and other accounting standard-setters.[2] It is particularly relevant to standard-setters in jurisdictions that have adopted or converged with International Financial Reporting Standards (IFRSs),[3] or are in the process of adopting or converging with IFRSs. It identifies a range of activities that the IASB and other accounting standard-setters believe should be undertaken by them in the interests of facilitating the ongoing adoption of or convergence with IFRSs.[4] Some accounting standard-setters may find it difficult to undertake certain of those activities with the resources at their disposal, but will use their best endeavours to do so.

1.2 Some of the activities are new or different from the way in which the IASB and other accounting standard-setters have operated in the past. Others are a confirmation of practices that are already being undertaken.

1.3 This Statement assumes that the ultimate aims of the IASB and other accounting standard-setters are:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and

---

1 This Statement also relates to the International Accounting Standards Committee (IASC) Foundation in respect of education.

2 The expression 'other accounting standard-setters' refers to organisations that have responsibility for setting accounting standards at a national level, including those whose responsibilities include but are broader than convergence with or adoption of IFRSs, and at an international level, specifically the International Public Sector Accounting Standards Board. It also includes those organisations that have responsibility for, and those with a direct role in facilitating, the setting of accounting standards across a number of countries in a region.

3 International Financial Reporting Standards (IFRSs) are defined as Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:
(a) International Financial Reporting Standards;
(b) International Accounting Standards; and
(c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). [IFRS 1 *First-time Adoption of International Financial Reporting Standards*, Appendix A]
However, where necessary to enhance readability, separate reference is made to Interpretations.

4 These activities are shown in italicised text.

comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;

(b) to promote the use and rigorous application of those standards;

(c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and

(d) to bring about convergence of national accounting standards and IFRSs to high quality solutions.[5]

1.4 This Statement is based on the premise that, in order to achieve the above aims for the benefit of constituents,[6] it is essential that the IASB and other accounting standard-setters work together in a spirit of openness and close co-operation. The activities identified in this Statement are important in building and maintaining the relationship between the IASB and other accounting standard-setters.

2 Communication

2.1 To achieve the objectives set out in paragraph 1.3, the IASB needs to establish and maintain strong communication links with its constituencies. However, because of the large number and wide variety of the IASB's constituents, the IASB is likely to have difficulty in communicating fully with all those constituencies. Accordingly, other accounting standard-setters have a role in communicating IASB activities and outputs to their constituents through educational and promotional activities, including publishing or distributing IASB consultative documents in their jurisdictions, and in both providing the IASB with feedback on these activities and outputs themselves and encouraging their constituents to provide feedback to the IASB.

---

5 These are the objectives outlined in the IASC Foundation's Constitution at paragraph 2.

6 The prime constituents of the IASB and other accounting standard-setters include the users of financial reports (including securities analysts), listed companies and other issuers of securities, their auditors and regulators. In some countries, the constituents of national standard-setters also include other types of reporting entities, such as unlisted companies and not-for-profit entities in the public and private sectors, and their auditors, regulators and other users of that financial information.

2.2 *To facilitate the communication process, the IASB should ensure that its publications are made widely available on a timely basis and that its activities are regularly reported and updated in various media.*

Constituent feedback

2.3 *Other accounting standard-setters should encourage their constituents to comment on IASB consultative documents direct to the IASB as well as to themselves.*

2.4 Forms of communicating views other than comment letters are increasingly important in gathering views, including forums on specific issues. *Other accounting standard-setters should use these forums as a mechanism for encouraging their constituents to participate in the IASB's standard-setting process.* When resources permit, the IASB may be able to assist other accounting standard-setters by making personnel available to enhance the effectiveness of these local or regional forums.

2.5 Other accounting standard-setters can assist the IASB in identifying constituents who can be involved in round-table discussions and other forums and the issues of particular relevance to constituents.

2.6 Without limiting the direct communication of ideas to the IASB, other accounting standard-setters have a role in communicating the views and ideas of their constituents to the IASB through the consultation process—providing a focus for views. Other organisations, such as representative bodies with an interest in financial reporting, may also contribute to this process. *Other accounting standard-setters should make their own submissions to the IASB on consultative documents and should convey their views to the IASB rather than provide merely a synthesis of the views expressed by their constituents.*

Communication among other accounting standard-setters

2.7 *Other accounting standard-setters should also communicate with one another, particularly when there is an issue of common interest.* It would, for example, be helpful if standard-setters with a common problem requiring interpretation formulated a joint proposal for consideration by the IASB or the IFRIC.

2.8 Other accounting standard-setters working together should be able to develop a thorough understanding of issues raised by their constituents because they will have the relevant local knowledge and ready access to the constituents who raise the issues. By developing this understanding, standard-setters should be better able to work through and refine their issues for consideration by the IASB or the IFRIC.

Timing

2.9 *Although other accounting standard-setters acknowledge the IASB's discretion to set the appropriate comment period for consultative documents, the IASB should bear in mind the need for other accounting standard-setters to have enough time to prepare material that places the IASB documents in the national or regional context, to expose the IASB documents in their jurisdictions, to receive comment from their constituents and to formulate their own views with the benefit of constituents' comments.*[7] *Any additional material should be designed to help stimulate debate.*

2.10 The IASB cannot wait for the slowest of processes to be completed. Accordingly, other accounting standard-setters may need to streamline their processes to the extent possible, which may require them to devote increased resources to the processes. The time available to undertake those processes is the time between the publication of IASB proposals and the end of the IASB's comment period. Closely monitoring a developing Exposure Draft should facilitate the preparation of any contextual material in time for the comment period, although translation from English into other languages can often be undertaken only when the final text of an Exposure Draft is available.

Due process

2.11 Other accounting standard-setters are best placed to understand the needs of their domestic constituents. Thus they can:

(a) explain the work of the IASB to their constituents in an effective way; and

(b) explain the concerns of their constituents to the IASB.

---

7 Also see paragraph 5.3 about allowing sufficient time after a standard is issued or changed so that other accounting standard-setters can establish and maintain a set of national or regional standards that enable their constituents to continue to make an unreserved statement of compliance with IFRSs.

2.12 *The standard-setting environment that the IASB helps to create should be one that encourages critical analysis of the IASB's proposals, and provides an open and transparent standard-setting process.*[8] *Other accounting standard-setters should make the IASB aware of any major conceptual differences of opinion they have with a project as early as possible in the life of a project. This would require other accounting standard-setters to monitor closely the development of the project and the IASB to continue to communicate publicly information about the project that will facilitate this monitoring process, for example by maintaining on its public Website up-to-date project summaries for all of its major current projects.*

Work programme

2.13 The IASB's work programme is a subject on which it is particularly helpful for other accounting standard-setters to channel the views of constituents in a constructive manner. The IASB is unable to respond to every interested party's request to deal with a topic. *Other accounting standard-setters should therefore seek the views of their constituents on work programme priorities and collect and summarise them for consideration by the IASB. The IASB should give other accounting standard-setters the opportunity to contribute to the periodic reviews of its work programme both at its annual meeting with world standard-setters, and at regional meetings of standard-setters with IASB representatives.*

2.14 *In the interests of facilitating useful discussion about the IASB's work programme, the IASB should ensure that its constituents and other accounting standard-setters are kept informed of current developments by continuing to publish its quarterly technical plan.*

3 Project role

3.1 Direct involvement of other accounting standard-setters in the IASB's projects helps to ensure that a wide range of views and ideas is considered in the early stages of the development of a project.

---

8 As noted in paragraph 1.2, some of the activities are a confirmation of practices that have been undertaken for some time. The IASC Foundation's Constitution and the IASB *Preface* outline a commitment to an open and credible process. The IASC Foundation's Handbook of Consultative Arrangements sets out the IASB's policies and procedures related to its due process.

3.2 *The IASB should, subject to the work being available, provide opportunities to other accounting standard-setters to be directly involved with IASB projects in the following ways:*

(a) involvement in a 'research project' alone, or, in partnership with a team of other standard-setters (either as a leader of the team or as team member), under the guidance of IASB staff and selected Board advisers.

(b) involvement of staff in a 'project team' on an active IASB project under the direction of the IASB directors.

Research projects

3.3 The IASB, in consultation with others, will identify topics it believes require research, including developing some general specifications for the project.

3.4 The IASB will select the lead researcher who will develop the detailed project plan for review by the staff and Board advisers and approval by the IASB. The plan will include information about:

(a) the project team

(b) the project timetable and milestones

(c) resource groups, if any.

3.5 The project team should comprise accounting standard-setters with a range of experience. This enables a wide group to be involved in the IASB's work, thereby gaining the benefit of a wide range of views and helping to spread acceptance of the IASB's work. Team members could be members of the boards or staff of accounting standard-setters. *All team members should be capable of contributing to the project.*

3.6 Board advisers will be appointed by the IASB for each project. The project team will consult IASB staff and Board advisers as necessary, particularly at crucial stages in the project and before documents are presented to the full Board for consideration.

3.7 The project team will manage the project including:

(a) identifying issues and conducting research

(b) identifying project milestones

(c) briefing the IASB as major tentative conclusions are reached.

The IASB will convey to the project team any concerns it has with the tentative directions/conclusions.

3.8 The Discussion Paper will almost always be intended to be the first step in the IASB's due process in the development of a standard on the topic. Therefore, the Discussion Paper will be published under the IASB's logo and will contain preliminary views:

(a) if they are to be the IASB's preliminary views, the conclusions will have to be discussed and agreed by the Board in public meetings; or

(b) the IASB may decide that the Discussion Paper will reflect the project team's views. If so, the IASB will review the entire draft Discussion Paper with the objective of ensuring that the analysis (i) is complete and (ii) will generate the feedback the IASB needs on the topic. The IASB will also discuss and decide in one or more public Board meetings the questions that it believes need to be asked in the invitation to comment.

3.9 The project team will analyse the responses to the invitation to comment as a basis for the next stage of the project. Comment letters will be made available to IASB members for their independent review and analysis.

3.10 The project team, advisory group and constituents generally will need to understand that there may be a lengthy interval between the time the Discussion Paper is completed and the IASB's formal decision to add the project to its active agenda. In particular, before making such an agenda decision, the IASB will need to consider a full agenda project proposal package.

3.11 Other accounting standard-setters are encouraged to conduct research or develop thinking on a topic that has not been identified by the IASB as a current priority, and then present the results of that work for consideration by the IASB and/or other accounting standard-setters. For there to be an expectation that those materials would be considered there would need to be some advance agreement both that the topic is worthy of consideration and that the IASB and/or other standard-setters have a common interest in the topic. In addition, the materials would need to be developed in the context of the IASB's conceptual framework.

Active projects

3.12 The IASB welcomes offers of staff assistance from other accounting standard-setters. To be effective, from both the IASB's perspective and that of the participating standard-setter, this involvement needs to be undertaken with a clear understanding of the staff member's role and responsibilities. In particular, the staff member would work under the direction of the IASB directors, would report to the project leader and would be expected to work as an independent member of the project team, not as a spokesman for his or her employer.

3.13 In addition to direct involvement in project work, other accounting standard-setters can interact with the IASB on specific projects in various ways, including written communication and meetings with staff and Board members.

Working groups

3.14 The IASB establishes working groups for some projects, and invites constituents to nominate candidates for membership of these groups. The working groups are a source of expert advice and ideas for the staff in progressing a particular project. *Accounting standard-setters may be able to assist in the process of making nominations to, and in facilitating the operations of, working groups by identifying and encouraging suitable individuals to nominate themselves and, if appointed, to liaise actively with those individuals and assist them when needed.*

4 Comment role on IASB consultative documents

4.1 The views of other accounting standard-setters can be a valuable source of independent thought in the development of IASB documents. *Other accounting standard-setters should provide comments to the IASB on consultative documents such as Exposure*

Drafts and Discussion Papers. If time does not permit board-level input, comment from staff of the standard-setter can be provided.

4.2 *If an accounting standard-setter is unable to comment on each consultative document, it should focus on those projects that are of particular importance to its constituents, or those on which that standard-setter believes it can best contribute.*

4.3 It may also be helpful for other accounting standard-setters to comment on other IASB documents, such as issues papers and draft Discussion Papers when they believe the IASB would benefit from their input at an early stage. However, it may not be practicable for a standard-setter to comment on all such papers or for the IASB to digest input to a project at that stage.

5 Application of standards

5.1 *Other accounting standard-setters should aim to achieve full adoption of IFRSs.*

5.2 Some standard-setters may be required to undertake one or more of the following processes in adopting IFRSs:

(a) translation;

(b) determine whether each standard meets specified criteria set out in local legislation;

(c) endorse the standards for the local regulatory framework;

(d) present the standards for parliamentary approval.

Therefore, adopting IFRSs is an ongoing process in many jurisdictions.

5.3 *Accordingly, the IASB, in setting the application date of new or amended standards, should bear in mind that other accounting standard-setters need enough time to perform those functions and are thus given every opportunity to establish and maintain a set of national or regional standards that enable their constituents to continue to make an unreserved statement of compliance with IFRSs.* IAS 1 *Presentation of*

Financial Statements is clear that an entity must comply with all applicable IFRSs in order to make an unreserved statement of compliance with IFRSs.

5.4 In some cases, other accounting standard-setters have the capacity to amend IFRSs for application in their own jurisdictions. Amendments that preclude users of those standards from making an unreserved statement of compliance with IFRSs thwart the aim of promulgating a single set of high quality accounting standards that are globally accepted. *Accordingly, in adopting IFRSs to apply in their own jurisdictions, other accounting standard-setters should not change requirements contained in IFRSs.*

5.5 In some cases, other accounting standard-setters that are in the process of converging with IFRSs may decide to delete certain requirements temporarily because of legal impediments or to allow time for the business community to make the transition to full IFRSs. *In such cases, where possible, other accounting standard-setters should permit the full application of IFRSs so that constituents in a position to meet the full requirements can elect to conform fully with IFRSs. Because the financial statements of constituents who apply such amended standards could not contain an unreserved statement of compliance with IFRSs, those standard-setters should seek to achieve full conformity with IFRSs as soon as circumstances permit.*

5.6 *When other accounting standard-setters follow a policy of converging with IFRSs rather than adopting them verbatim, the ultimate objective should be to enable the entities applying the standards that have converged with IFRSs to make an unreserved statement of compliance with IFRSs.*

5.7 In some cases, other accounting standard-setters have a policy of removing optional treatments and adding disclosure requirements to IFRSs when they believe doing so provides more comparable and useful information in that jurisdiction.[9] For example, in some jurisdictions:

(a) entities may have been required to use one of the optional treatments for many years and introducing a choice when adopting IFRSs may be regarded as inappropriate; or

(b) the standard-setter may be trying to achieve convergence with another national or regional standard-setter at the same time as adopting IFRSs.

5.8 *When another accounting standard-setter makes any changes to an IFRS, for example adding a disclosure that is considered necessary in the local environment, or removing an optional treatment, this should be made clear so that users of the standard are aware of the changes.*

5.9 In some cases other accounting standard-setters may wish to use IFRSs, either in their entirety or as a base, for establishing financial reporting requirements for not-for-profit entities in the private or public sectors.[10] This is a matter for those standard-setters and is beyond the scope of this Statement.

5.10 The IASB is developing standards for small and medium-sized entities. The matters discussed in this Statement apply equally to such standards.

---

9 Adding disclosure requirements or removing optional treatments does not create non-compliance with IFRSs. Indeed, the IASB aims to remove optional treatments from IFRSs. Nevertheless, removal of an option may increase preparation costs for multinational companies if the option removed is the global accounting policy, because the information from the subsidiary using one option needs to be changed to the option used by the group globally.

10 Some standard-setters have a policy of using IFRSs and/or International Public Sector Accounting Standards (IPSASs) as the basis for establishing financial reporting requirements for not-for-profit entities in the private or public sectors. Many of the IPSASs are themselves based on IFRSs.

6 Interpretation

6.1 Inevitably, questions of interpretation will arise when IFRSs are applied. *Accordingly, other accounting standard-setters should be familiar with the implementation of IFRSs in their jurisdictions*. This familiarisation process may involve, or depend upon, close liaison with local capital market and industry regulators.

6.2 *If a standard-setter believes that an issue requires interpretation of IFRSs, it should request the IFRIC to address the issue.* The IFRIC or IASB staff may decide that an amendment to an IFRS is the more appropriate course to follow. As part of this process, other accounting standard-setters that face a common issue could work together to formulate a possible approach to the issue for resolution by the IFRIC or the IASB.

6.3 IFRSs are intended to apply worldwide regardless of local legislative and regulatory environments. However, some issues may affect only one or two jurisdictions and may relate to particular legislative or other local requirements—for example, a tax law that is unique to a jurisdiction. In these cases, which are likely to be rare, other accounting standard-setters may decide to issue their own interpretations. Care needs to be exercised, however, to ensure that the issues are not more widely relevant.
In considering their own issues, other accounting standard-setters should liaise with the IFRIC, and if they believe it is necessary to issue an interpretation, they should avoid incompatibility with IFRSs.

6.4 *If the IFRIC decides not to address an issue that has been considered for inclusion on its agenda, a public explanation should be given so that the basis for the decision is clear.*[11]

11 This could include the explanation that the issue is already dealt with in existing IFRSs. There would be no need for an explanation if the issue were considered trivial.

7 Working with regulators

7.1 Financial reporting regulation in many jurisdictions is linked to other forms of regulation. For example, accounting standards may be given legal status under legislation that also sets out a broad framework for financial reporting. *Other accounting standard-setters can help to identify and promote the removal of domestic or regional regulatory barriers to adopting or converging with IFRSs, such as legislative impediments.* In many cases, this will require the co-operation of regulators (including relevant legislators). The IASB can also facilitate the removal of regulatory barriers through its relationships with international and regional capital markets and industry regulatory bodies.

7.2 In some jurisdictions, financial reporting regulation is the first form of regulation that is being harmonised or is converging internationally. *Other accounting standard-setters should keep those domestic regulators that regulate in areas related to financial reporting informed of relevant IASB initiatives and encourage them to embrace international convergence efforts in their own regulatory areas.* This may help to remove potential barriers to adopting IFRSs, because there are sometimes linkages between financial reporting and other regulatory reporting. This is not to say that all forms of reporting need to converge, because they will often be different to suit different objectives.

8 Education

8.1 *Other accounting standard-setters should make the IASC Foundation aware of educational needs in their jurisdictions and provide information about the types of programmes that are likely to be most useful and successful in their jurisdictions, and the IASC Foundation should be sensitive to those needs.*

8.2 *Other accounting standard-setters should also provide the IASC Foundation with material that they believe may be helpful in creating educational materials, such as guidance they have used in their jurisdictions in the past on particular topics.*

8.3 Other accounting standard-setters may find it useful to develop their own educational material as regards the implementation of IFRSs—for example, in order to cater for local needs and issues. *Because the material may have relevance to other jurisdictions, standard-setters should keep the IASC Foundation informed of any such material.*

9 Review

Accounting standard-setting is a dynamic activity against a backdrop of constant changes in the financial reporting environment, including changes in financial reporting requirements, the processes by which those requirements are developed and the structure within which standard-setting takes place. *To ensure that this Statement reflects the current standard-setting environment, it should be periodically reviewed by the IASB and other accounting standard-setters.*