



Our Ref.: C/FRSC

**Sent by email ([constitutionreview@isab.org](mailto:constitutionreview@isab.org))**

25 March 2009

Tamara Oyre  
Assistant Corporate Secretary  
IASB Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Ms. Oyre,

**[IASB Foundation Discussion Document on Review of the Constitution:  
Identifying Issues for Part 2 of the Review](#)**

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Discussion Document. Our responses to the questions raised in your Discussion Document are set out in the Appendix for your consideration.

We support the objectives and governance structure of the trustees and the IASB as currently set out in the Constitution. We believe that it is important to maintain the independence of the standard-setting process while ensuring that the urgent needs of different jurisdictions are addressed appropriately and on a timely basis.

Given that more and more countries have now adopted IFRS, it is important that an effective mechanism be established to follow up issues raised by particular jurisdictions such that proper explanations and guidance are provided ensuring transparency of the IASB standard setting process.

In respect of due process procedures, we agree that 'fast track' procedures should be created for changes in IFRSs in cases of great urgency. We consider that there may be circumstances in which it would be acceptable for due process to be accelerated so that constituents may be asked to provide their comments within a shortened period. However, we expect such circumstances to be rare.

If you have any questions on our comments, please do not hesitate to contact me at [ong@hki CPA.org.hk](mailto:ong@hki CPA.org.hk).

Yours sincerely,

Steve Ong, FCA, FCPA  
Director, Standard Setting Department

SO/WC/ac



## **Hong Kong Institute of CPAs**

### **Comments on the IASC Foundation Discussion Document on *Review of the Constitution: Identifying Issues for Part 2 of the Review***

#### **Objectives of the organisation**

##### **Question 1**

The Constitution defines the organisation's primary objective in the following manner:

**to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions**

In fulfilling that objective, the organisation is

**to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies**

**Does the emphasis on helping 'participants in the world's capital markets and other users make economic decisions', with consideration of 'the special needs of small and medium-sized entities and emerging economies', remain appropriate?**

We consider that the primary objective of the IASB and its priority should continue to be to develop the single set of high quality standards required by the world's capital markets – IFRS for listed entities.

We consider that the term "comparable" information as stated in the objective should be changed to "consistent" information as we believe that entities using different accounting options allowable under IFRS for the same transaction should be acceptable. Furthermore, the word "accounting" standards should be changed to "financial reporting" standards.

We believe that the phrase "in fulfilling that objective, the organization is to take account of, as appropriate the special needs of small and medium-sized entities and emerging economies" is confusing as it is clear to us that the needs of SMEs are now different to the capital market participants. We acknowledge that the IASB should assist in developing standards for SMEs and in this regard, we are pleased to note that the IASB has taken on that responsibility by producing the proposed IFRS for non-publicly accountable entities. We are of the view that the IASB has taken the right direction by developing two sets of financial reporting standards. We also believe this is a separate issue from identifying the needs of emerging economies.



## Question 2

**In the opinion of the Trustees, the commitment to drafting standards based upon clear principles remains vitally important and should be enshrined in the Constitution. Should the Constitution make specific reference to the emphasis on a principle-based approach?**

We fully support the Trustees' opinion that the commitment to drafting standards based upon clear principles is vitally important and specific reference to the emphasis on a principles-based approach should be enshrined in the Constitution. We believe that a financial reporting framework should be based on principles where the professional accountant exercises his or her professional judgment to apply those principles rather than adherence to bright-line rules. We believe that this system allows preparers and auditors of financial statements to focus better on the true economic substance of financial transactions, leading to better quality financial statements.

In relation to this particular subject, we would like to draw the IASB's attention to a project currently undertaken by the Global Accounting Alliance (GAA). GAA has currently published a research report, *Getting to the heart of the issue – Can financial reporting be made simpler and more useful?* which draws on interviews conducted in early-mid 2008 with financial regulators from the UK, Canada, Australia, China, the United States of America, South Africa, France, the European Commission and international regulators. Interviewees also included a leading US litigation lawyer and representatives of the world's leading accounting and auditing practices.

The report concludes that a principles-based international standards approach is viewed around the world as the best basis on which to report the economic substance of financial transactions, and that further steps are needed to assist the broader adoption of principles-based standards.

The GAA is calling for certain key questions to be debated by key international stakeholders in financial reporting and we encourage the IASB to work closely with the GAA on this matter.

Finally, as the use of IFRS around the world is increasing, in order to facilitate the translation process, we would encourage that the Trustees also consider requesting the IASB to commence a clarity project on financial reporting standards similar to that implemented by the IAASB for auditing standards.



### Question 3

**The Constitution and the IASB's Framework place priority on developing financial reporting standards for listed companies. During the previous review of the Constitution some commentators recommended that the IASB should develop financial reporting standards for not-for-profit entities and the public sector. The Trustees and the IASB have limited their focus primarily to financial reporting by private sector companies, partly because of the need to set clear priorities in the early years of the organisation. The Trustees would appreciate views on this point and indeed whether the IASB should extend its remit beyond the current focus of the organisation.**

We agree that the Constitution and the IASB's Framework should place priority on developing financial reporting standards for listed companies. The IASB currently has a number of very important projects and issues that it needs to complete and resolve, such as the conceptual framework, improving the accounting for financial instruments and fair value measurement. All these matters require great amount of time and resources from the IASB. Therefore, we would not at this time support that the IASB develops financial reporting standards for the public sector. Moreover, governments of different jurisdictions currently use different financial reporting frameworks to suit their own political situations. We consider that it is premature to form any conclusions regarding the appropriate framework until governments around the world have identified the appropriate general direction.

Furthermore, the financial reporting standards of the public sector are already covered by the International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board (IPSASB). Accordingly, it should be opportune for IASB to review and make clear the respective roles and responsibilities of the two boards (i.e. IASB and IPSASB) in this regard.

In relation to not-for-profit entities, we would encourage the IASB to consider providing these entities with guidance in applying IFRS.



#### Question 4

**There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognises the need to have close collaboration with accounting standard-setting bodies. Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives? If so, should there be any defined limitations?**

In developing a single set of high quality, understandable and enforceable global accounting standards, we think the Constitution should allow for the possibility of closer collaboration with all bodies interested in accounting standard-setting, including regulators and enforcement agencies.

We support that the Constitution can be amended to allow for the possibility of closer collaboration with a wide range of organizations. However, any collaboration should be such that the independence of the IASB is not compromised.

#### **Governance of the organization**

#### Question 5

**The first part of the review of the Constitution proposed the establishment a formal link to a Monitoring Group. Under this arrangement, the governance of the organisation would still primarily rest with the Trustees. Although the first part of the review has not yet been completed, the Trustees would welcome views on whether the language of Section 3 should be modified to reflect more accurately the creation of the Monitoring Group and its proposed role.**

We agree that the Trustees should remain the body primarily responsible for the governance and oversight of the IASB and agree that Section 3 should be modified to reflect more accurately the creation of the Monitoring Group and its proposed role. We recommend that a charter that sets out the organizational, operating and decision-making procedure of the Monitoring Group should be exposed for public comment prior to its finalization to ensure that there are checks and balances to prevent political interests exercising undue influence over the Monitoring Group and the appointment of Trustees.



## Trustees

### Question 6

**The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?**

We believe that a geographical balance is important and having trustees from different geographical backgrounds can help stakeholders to identify more closely with and communicate with Board members. However, we are of the view that a fixed geographical distribution provides insufficient flexibility to the overall geographical balance. We would suggest that, instead of defining all the 22 seats, the Constitution should assign a minimum of guaranteed seats for different geographical regions and leave a few seats to be filled at the Trustees' discretion in order to maintain an overall balance of representation. The distribution should be reviewed on a regular basis to recognise the geographical regions of new countries adopting IFRS. However, it is important to ensure that professional competence and relevant experience should remain paramount criteria for the selection of Trustee members such that they have an understanding of and be sensitive to, the challenges associated with the adoption and application of high quality global accounting standards for use in the world's capital markets and by other users.

### Question 7

**Sections 13 and 15 set out the responsibilities of the Trustees. The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation – the fundamental operating principle of the organisation. In addition to these constitutional provisions, the Trustees have taken steps to enhance their oversight function over the IASB and other IASC Foundation activities. The Trustees would welcome comments on Sections 13 and 15, and more generally on the effectiveness of their oversight activities.**

We have no particular comments on Sections 13 and 15.



## Question 8

**The Trustees are responsible for ensuring the financing of the IASC Foundation and the IASB. Since the completion of the previous review of the Constitution, the Trustees have made progress towards the establishment of a broad-based funding system that helps to ensure the independence and sustainability of the standard-setting process. (For an update on the funding status, see <http://www.iasb.org/About+Us/About+the+IASC+Foundation/Funding.htm>)**

**However, the Trustees have no authority to impose a funding system on users of IFRSs. The Trustees would welcome comments on the progress and the future of the organisation's financing.**

With the increasing use of IFRS across global capital markets and higher visibility of the IASC Foundation, we believe that it is now the right time for the IASC Foundation to work towards some form of direct or indirect levy system on users of IFRSs. A secure and stable funding mechanism will enable the IASB to function independently and is important to ensure that there are sufficient resources to develop high quality financial reporting standards on a timely basis.

## International Accounting Standards Board

### Question 9

**Commentators have raised issues related to the IASB's agenda-setting process. The Constitution gives the IASB 'full discretion in developing and pursuing its technical agenda'. The Trustees have regularly reaffirmed that position as an essential element of preserving the independence of the standard-setting process. However, they would welcome views on the IASB's agenda-setting process and would appreciate it if, in setting out views, respondents would discuss any potential impact on the IASB's independence.**

In theory, we agree with the current mechanism of giving the IASB full discretion in developing and pursuing its technical agenda together with the SAC advising on agenda decisions and priorities. However, in practice, we note that the agenda decisions and priorities may not always deal with the urgent needs of different jurisdictions.

In particular, there are certain areas that the IASB is planning to address which we do not believe merit urgent attention (e.g. accounting for joint arrangements and earnings per share) and other areas where we believe the standards need to be improved but which are not accorded the priorities that we were expecting, such as fair value measurement guidance, amendments to IAS 24 *Related Party Disclosures* - State-Controlled Entities and amendments to IAS 12 *Income Taxes* - deferred tax on investment property.

We believe that additional technical IASB resources should be acquired to accelerate the issuance of the IASB amendments. In addition, we would like the IASB to publish its proposed agenda with an explanation of the rationale behind the decisions it has taken.



## Question 10

**The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the IASB Due Process Handbook. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the procedures require too much time, what part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the *IASB Due Process Handbook*.**

We agree with the due process procedures set out in the Constitution and consider that under no circumstances should the due process procedures be overridden. We believe that it is important that an appropriate due process is followed (albeit on a shortened timetable) in order to allow constituents to consider and comment on the proposed changes. In the case of the recent 13 October 2008 change to allow certain financial asset reclassifications, we note that, without a due process, subsequent clarification and amendments were required on certain unintended consequences, which could have been identified during a public consultation.

In addition, we think there is room to improve the way the due process is implemented. For example, before the IASB proceeds with an exposure draft, it may be appropriate to sound out informally the proposals with the larger accounting firms, so that proposals that will not obtain majority support would not be exposed. An example is the recently withdrawn exposure draft of proposed amendments to IFRS 7 – Investments in Debt Instruments.

## Question 11

**Should a separate 'fast track' procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a 'fast track' procedure?**

Yes, we agree that a separate 'fast track' procedures should be created for changes in IFRSs in cases of great urgency. We consider that there may be circumstances in which it would be acceptable for due process to be accelerated whereby constituents may be asked to provide their comments within a shortened period. However, we expect such circumstances to be extremely rare. In addition, under such circumstances, we would encourage the IASB not to set requirements with retroactive application dates.



## **Standards Advisory Council**

### **Question 12**

**Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?**

### **Question 13**

**Attached to this discussion document are the terms of reference for the SAC, which describe the procedures in greater detail. Are there elements of the terms of reference that should be changed?**

Our responses cover both Question 12 and Question 13.

We agree with the current terms of reference and professional backgrounds requirements for SAC. However, we consider that at each SAC meeting, each SAC member representing their jurisdiction or organization should be allowed a set time to explain briefly the outstanding issues remaining in their jurisdiction. We would recommend that an IASB Technical Director should be present to take note of these matters and thereafter follow up the issues with the IASB. Given that more countries have now adopted IFRS, it is important that an effective mechanism be established to follow up issues raised by each jurisdiction such that proper explanations and guidance are provided, ensuring transparency of the IASB standard setting process.

## **Other issues**

### **Question 14**

**Should the Trustees consider any other issues as part of this stage of their review of the Constitution?**

We have no additional comments.