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**Sent electronically through the IASB Website ([www.iasb.org](http://www.iasb.org))**

13 March 2009

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sirs,

**IASB Exposure Draft of Additional Exemptions for First-time Adopters**

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 are pleased to note that the IASB is issuing additional exemptions for First-time Adopters. We have no specific comments on the additional exemptions in the Exposure Draft but have an issue in Hong Kong relating to IFRS 1 *First-time Adoption of International Financial Reporting Standards* which we would like to include in this submission to the IASB in order that the project team can consider ways to assist Hong Kong and others who may have a similar difficulty. Furthermore, we are also writing with the purpose of sharing our convergence experience in Hong Kong so that the IASB consider recommendations to those countries that are going to adopt IFRSs, such as Brazil, Canada, India and Korea, all of which will adopt IFRS by 2011, to adopt IFRS 1 to avoid finding themselves in the position Hong Kong now finds itself in.

**Convergence of HKFRSs with IFRSs**

Hong Kong first began issuing new or amended standards based primarily on IASs, rather than UK accounting standards, in 1993. Over the period from 1993 to 2004, the body of Hong Kong accounting standards (referred to at that time as Statements of Standard Accounting Practice ("HK SSAPs")) gradually became predominantly an IAS-based body of standards, with the only substantial differences remaining being in the areas of financial instruments and investment properties.

In 2004 the HKICPA completed its project of convergence, with the result that Hong Kong accounting standards were fully converged with IFRSs with effect from 1 January 2005. That is, as from that date, there were individual "HKASs", "HKFRSs" and Interpretations in issue which corresponded to each and every one of the IASs, IFRSs and Interpretations in issue at that time. Each of those Hong Kong standards contained wording identical to that in the equivalent IAS or IFRS except that transitional provisions in certain standards were changed to provide for transition from the requirements in the previous HK SSAP rather than from the previous version of the relevant IAS. However, in many cases, "convergence" simply amounted to changing the name of the standard from "SSAP" to "HKAS" since the text of the SSAP already



corresponded to the text of the equivalent IAS and therefore no specific transitional provisions were required.

Given that the body of Hong Kong accounting standards were already substantially converged with IFRSs in many respects prior to 2005, Hong Kong did not require existing Hong Kong reporters to apply HKFRS 1 “First time adoption of Hong Kong Financial Reporting Standards” (the HK equivalent standard to IFRS 1) when adopting the renamed and fully converged HKFRSs in 2005. Instead, in 2005 existing Hong Kong reporters were required to adopt any new or amended HKASs or HKFRSs first effective in 2005 in accordance with the transitional provisions in those standards and the requirements of HKAS 8 “Accounting policies, changes in accounting estimates and errors” (the Hong Kong equivalent of IAS 8), in much the same way as they had been required to do in any other year when standards were amended.

The programme of convergence of HKFRSs with IFRSs has continued since 2005, in that whenever the IASB has issued a new or amended IAS or IFRS, or an Interpretation, equivalent amendments have been made to HKFRSs with the same effective dates and transitional provisions.

### **Issues arising from compliance with HKFRSs and IFRSs**

In essence, for the majority of companies, financial statements prepared in accordance with HKFRSs are for all intents and purposes identical to financial statements prepared in accordance with IFRSs. However, this does not automatically entitle such companies to include an unreserved statement of compliance with IFRSs in their financial statements. Instead, existing preparers applying HKFRSs that wish to claim compliance with IFRSs must also apply IFRS 1 in the period when they first claim compliance. This requirement is clear in paragraph 3(a)(ii) of IFRS 1 which indicates that IFRS 1 needs to be applied when an entity presented its most recent previous financial statements “in conformity with IFRSs in all respects, except that the statements did not contain an explicit and unreserved statement that they complied with IFRSs.”

IFRS 1 contains specific transitional provisions, which may or must be applied in the first year that an entity makes an explicit and unreserved statement of compliance with IFRSs. These transitional provisions in IFRS 1 override any transitional provisions that may be contained in individual IFRSs. As a result of the transitional provisions in IFRS 1, it is possible that certain treatments that are acceptable under a continuing application of HKFRSs are unacceptable in the financial statements of a first-time adopter of IFRSs. These differences may arise due to differences in transitional provisions that were included in HKFRSs when they were first issued in Hong Kong prior to 2005.

However, differences may also arise between transitional provisions in IFRS 1 and those in any of the new IFRSs and amendments that Hong Kong has copied from the IFRSs since 2005, or will copy in the future. For example, IFRS 1 contains transitional provisions relating to share-based payments that are different from those that were included in IFRS 2 *Share-based Payment* when it was first issued. Therefore, an entity that adopted HKFRS 2 (which is a copy of IFRS 2) still needs to meet the requirements of IFRS 1 when adopting IFRSs for the first time, even though the transitional provisions for IFRS 2 and HKFRS 2 are identical.

Where differences are identified between the transitional provisions in IFRS 1 and those adopted at the time the current HKFRS accounting policy was adopted, an entity may choose either to adopt IFRS 1 exemptions or to change existing HKFRS accounting policies to achieve dual compliance. However, changing existing accounting policies is only acceptable under HKFRSs if it meets the requirements of paragraph 14 of HKAS 8 “Accounting Policies, Change in Accounting Estimates and Errors”, the Hong Kong equivalent of IAS 8. If the variance is material and cannot be resolved through one of the above routes, an entity will not be able to claim dual compliance with HKFRSs and IFRSs.

Hong Kong’s effort in bringing about convergence was based on the expectation that financial statements prepared using HKFRSs would be fully accepted internationally as IFRSs-compliant. We have communicated our concerns to Mr. Wayne Upton, IASB Director of International Activities last December and would like the IASB project team to take into account our situation when considering additional exemptions to IFRS 1.

In this regard, we note that the IASB proposes not to require the reassessment of whether an arrangement contains a lease, if a first time adopter made the same determination under previous GAAP, except at a different date as that required by IFRIC 4. We would be pleased if the relief would be extended and implemented as an overarching principle to any such situations where an identical or virtually identical standard has been adopted prior to the conversion to IFRS except for differences in transitional provisions and effective date of application. As you would see from the above explanations, this exemption is particularly important to Hong Kong since under the current situation, certain entities may face difficulty in being able to claim dual compliance of HKFRSs and IFRSs except for applying IFRS 1 in the period when they first claim compliance of IFRSs.

This is becoming an important issue in Hong Kong because the Securities and Exchange Commission (SEC) allows foreign private issuers to file financial statements with the SEC prepared in accordance with IFRS “as issued by the IASB” without including a reconciliation to US GAAP. Entities that prepare financial statements in accordance with HKFRS cannot benefit from the SEC’s relief, unless the IASB provide additional exemption from applying IFRS 1 if the standards of previous GAAP is identical or virtually identical to IFRS in the interest of avoiding unnecessary and excessive costs. We take the opportunity to also request that consideration be given for the additional exemption to take retrospective effect from the date that a jurisdiction claimed full convergence with IFRSs, so as to enable the entities that prepare financial statements in accordance with HKFRSs to be able to benefit from such additional exemption and thus being able to claim dual compliance.

We enclosed the following documents for your perusal:

- (a) articles that relate to this issue (**Appendix 1**) and
  - (i) [http://www.hkicpa.org.hk/correspondence/2008-07-10/Dual\\_compliance.pdf](http://www.hkicpa.org.hk/correspondence/2008-07-10/Dual_compliance.pdf)
  - (ii) [http://www.pwccn.com/webmedia/doc/633377235508842175\\_dual\\_compliance\\_fe\\_b2008.pdf](http://www.pwccn.com/webmedia/doc/633377235508842175_dual_compliance_fe_b2008.pdf)
- (b) the Standard-by-Standard comparison of effective dates and transition showing HKFRS, IFRS and IFRS 1 (**Appendix 2**).



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

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 faithfully,

A handwritten signature in black ink that reads 'Steve Ong'. The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Steve Ong, FCA, FCPA  
Director, Standard Setting Department

cc. Mr. Wayne Upton, IASB Director of International Activities  
Ms. Dora Cheung, IASB Project Fellow