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**BY FAX (2865 6776)
AND BY POST**

Our Ref: LD/CC/099-11

Mr. Chris Joy
Executive Director
Hong Kong Institute of Certified Public Accountants
37/F., Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Dear Chris,

International Integrated Reporting Committee ("IIRC") Discussion Paper on Towards Integrated Reporting – Communicating Value in the 21st Century ("Discussion Paper")

I refer to your request dated 23 September 2011 for comments on the above Discussion Paper which has been passed to me for my attention.

We have completed our review of the Discussion Paper. The Discussion Paper sets out the preliminary views of the IIRC on proposals to develop a new, integrated "Framework" for corporate reporting, which aims at consolidating current reporting practices by bringing together financial, environmental, social and governance information in an "Integrated Report". The objective of integrated reporting is to provide information in a holistic and coherent manner that will be useful to shareholders and other stakeholders in making better informed decisions.

The Discussion Paper sets out the following five guiding principles for preparing an Integrated Report:-

- (1) strategic focus;
- (2) connectivity of information;
- (3) future orientation;
- (4) responsiveness and stakeholder inclusiveness; and
- (5) conciseness, reliability and materiality.

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It is proposed that an Integrated Report will include the following key content elements:-

- (1) organizational overview and business model;
- (2) operating context, including risks and opportunities;
- (3) strategic objectives and strategies to achieve those objectives;
- (4) governance and remuneration;
- (5) performance; and
- (6) future outlook.

We appreciate the work undertaken by the IIRC in seeking solutions to improve corporate reporting from both preparers and users' perspectives and are generally supportive of the proposals. Our comments on the Discussion Paper are set out below.

Objective of corporate reporting

One of the objectives of corporate reporting is to provide information about a reporting entity's "performance" and we believe this should focus on "actual" transactions that have occurred and subsequent events that may have an impact on the recovery of amounts relating to past transactions. We believe that hypothetical transactions with hypothetical parties at hypothetical exit prices should not be recognised which is the effect of the current requirement for fair value re-measurements. However, we believe that information on future commitments and risk exposures is relevant and such information should be disclosed.

We note and agree with the IIRC's observation that *"Reports are already long and are getting longer. But, because reporting has evolved in separate, disconnected strands, critical interdependencies between strategy, governance, operations and financial and non-financial performance are not made clear"*. We believe that many stakeholders including regulators have similar concerns and there is an urgent need to reduce financial statement disclosures by removing disclosures that are not significant. There is a need to adopt a materiality principle where significant information is highlighted, and less useful information is removed so that users are presented with concise, critical and relevant information about the entity for making decisions.

We concur with the proposals that *"The linkages between past and current performance and between current performance and future outlook should be made clear"*. To achieve this the IIRC, in conjunction with the International Accounting Standards Board, should clearly define what is meant by "performance" (both financial and non-financial) and how it should be measured and presented in financial statements and the Integrated Report.

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The call for integrated reporting clearly indicates that the current financial reporting model is not providing information that is important to users and in a manner which can be easily understood.

In particular, in the past financial statements properly and clearly presented “actual” transactions. However, recent accounting standards are increasingly requiring fair value re-measurements and this has led to substantial additional disclosures which attempt to explain why the recorded fair value amounts may not be reliable. We have significant concerns that the increasing use of fair value accounting make financial statements more opaque and as a result it is difficult for users to understand the actual or real financial performance of an entity. We believe fair value re-measurements which represent the recognition of hypothetical transactions should not be recognized in measuring the performance of an entity. We believe financial statements should focus on accounting for “actual transactions” undertaken by an entity with other third parties and at their agreed contractual terms as only these truly reflect and result in real cash flows.

Guiding principles

We note that the description of the guiding principles in the Discussion Paper is quite brief and further guidance and examples would be helpful for a better understanding of the principles so that they can be implemented consistently in practice.

One of guiding principles for the preparation of an Integrated Report is “Conciseness, reliability and materiality” and the Discussion Paper states that “*An Integrated Report provides concise, reliable information that is material to assessing the organization’s ability to create and sustain value in the short, medium and long term*”.

We believe that materiality or significance is a key concept that should be adopted when deciding whether or not certain disclosures should be provided in financial statements. Adoption of a similar principle for Integrated Reports is also appropriate. However, we note that currently there is little guidance on materiality issued by the accounting and auditing standard-setters. Therefore, we believe that quantitative benchmarks together with other guidance on qualitative aspects on how to meet the principle will need to be developed. These will need to be thoroughly field-tested to ensure that they are clearly understood and can be put into practice. As mentioned above, examples and a model Integrated Report together with the other accompanying reports should be developed to enhance understanding and provide a practical guide to the nature and form of the expected end-product.

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We note that integrated reporting is significantly wider in scope than traditional financial reporting as the objective is a coherent package of information on the reporting entity. To some degree, the Chairman's Statement which is included in many annual reports is an attempt to achieve this same objective. Developing the Framework will be a substantial challenge and the Discussion Paper recognizes that it will take some time to implement it effectively across jurisdictions as local laws and regulations will need to be changed. In this respect, we believe that it is important that there must be adequate explanations in the Framework of the meanings of the terms used, what they are intended to indicate or portray, how they should be measured, and how the relevant information should be presented. The Endnotes on page 29 of the Discussion Paper indicates that currently different terms are used and going forward there must be a consensus on terms to avoid misunderstanding and confusion.

Independent assurance

The Integrated Report is intended to become an entity's primary report, replacing rather than adding to existing requirements. We agree with the IIRC's recommendation that new standards should be developed to support independent assurance on the information provided in the Integrated Report.

We note that International Standard on Auditing No. 720 on "*The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*", issued by International Auditing and Assurance Standards Board ("IAASB"), already requires the auditor to review information included outside the financial statements. We note however that the existing guidance is directed at identifying information provided outside the financial statements that may contradict or is inconsistent with the information included in the financial statements. We believe that providing assurance on more "future oriented information" goes beyond the traditional assurance engagement and it will be necessary to develop new assurance standards that are expected to be applied on such work. The greatest challenge will be getting support and buy-in from the auditing profession and the development of assurance standards and guidance so that the assurance reports produced will add value and provide sufficient comfort on the reliability of the forward looking and other information that is presented. The IIRC will need to co-ordinate its efforts with the IAASB to provide clarity and further codify the assurance requirements.

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Pilot programme

We fully support the IIRC's proposal to undertake thorough field testing on a select group of companies from different industry sectors at a very early stage before an exposure draft of the Framework is finalised and issued. This should ensure that the full implications of the proposed framework are understood and is workable in practice.

Liaison with other standard-setters and regulatory bodies

As integrated reporting will be a new holistic approach of communication between a reporting entity and its stakeholders, the IIRC will be required to work very closely and in collaboration with other regulators and standard-setters to make it work. In this respect, one of the greatest challenges of the IIRC will be to understand, anticipate and influence the work and output of other regulators and standard-setters so that all parties work in unison to common goals and objectives and within a common time-frame.

We hope that the above comments are useful.

Yours sincerely,

For and on behalf of

The Stock Exchange of Hong Kong Limited



Colin Chau
Senior Vice President
Listing Division

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c.c. Mr. Mark Dickens JP – Head of Listing