



# CUSCS

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13 December 2013

Mr. Simon Riley  
Director  
Standard Setting  
Hong Kong Institute of Certified Public Accountants  
37<sup>th</sup> Floor, Wu Chung House  
213 Queen's Road East  
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Hong Kong

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Dear Sir,

**Comment on IASB Discussion Paper of Conceptual Framework**

In response to your letter addressed to our Director as of 4 October 2013, attached please find our comments on the captioned Discussion Paper.

If you need further information, please feel free to contact the undersigned at 3943-9123 or by email at [mtsong@cuhk.edu.hk](mailto:mtsong@cuhk.edu.hk). Thank you.

Yours faithfully,

Maggie Tsong  
Programme Leader  
Business & Management Division

Encl.

cc: Dr. Ella Chan  
Director

## Comment on IASB Discussion Paper of Conceptual Framework

We fully agree that there is a need to review and revise the existing Conceptual Framework so as to reflect the new development of accounting reporting standards as well as to address the problems encountered in their applications. The following comments are given to some of the questions listed in the Discussion Paper for the Board's consideration:

### Question 1

Regarding the proposed purpose and status of the Conceptual Framework, we agree at the IASB's preliminary views. Instead of having an exhaustive list of purpose, the primary purpose could be promulgated to the accounting users more clearly. We also agree that to meet the overall objective of financial reporting, a new or revised Standard need to be issued whenever there is any conflict with an aspect of the Conceptual Framework. However we believe that the no. of conflicts should diminish through time.

### Question 2

We agree at the revised definitions of an asset and a liability. Compared to the existing definitions, it could make the definitions more concise and focused while in fact there are no significant changes on their definitions. The changes could also eliminate users' confusion on the "expected inflow / outflow" criteria that embedded in the existing definitions. It is also good to see the proposed definition of "economic resource" which is not provided in the existing Framework.

### Question 3

We agree at the proposal to exclude "uncertainty" consideration in the definition and recognition criteria for assets and liabilities. Under the existing Framework's definitions, the word "expected" is used, therefore preparers of financial statement are likely to exclude those assets/liabilities items if there is no expected inflow / outflow of economic benefit despite the fact that the items are really the resource or obligation of the entity. Due to this, we agree that the "expected" notion should not be retained in both the definitions and the recognition criteria. It is believed most of the asset / liability do not have such uncertainty issue. If such cases arise, it could be dealt with by developing or revising a Standard on that particular type of asset or liability rather to retain the

existing reference of probability.

#### Question 6

Regarding the 3 options proposed in determining the 'present obligation' of a liability, we support the Board's view of not adopting option 1. It is because under this option, most of the liabilities are probably escaped from being recognized in the books and therefore entities might tend to under-estimate their liabilities. We suggest adopting option 3 in defining a 'present obligation' which is a present obligation must have arisen from past events, but may be conditional on the entity's future actions. This is a more conservative approach in recording liabilities and it also aligns with IAS 19.

#### Question 8

We support the IASB's preliminary view on the recognition criteria, i.e. an entity should recognise all its assets and liabilities unless the IASB decides to develop or revise a particular Standard on the grounds stated at the Discussion Paper. Under the proposed Conceptual Framework, the focus of asset / liability recognition is the existence of "resource / obligation" rather than the "expected inflow / outflow of economic benefit", therefore once these definitions are met, all items should be recorded in the financial statements and the existing two recognition criteria are no longer required.