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By email: commentletters@hkicpa.org.hk & by post

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Dear Steve

**IASB Exposure Draft – Presentation of Items of Other Comprehensive Income
(Proposed Amendments to IAS 1)**

We refer to your letter dated 8 June 2010 and would like to set out below our comments on the above Exposure Draft for your consideration.

Question 1

The Board proposes to change the title of the statement of comprehensive income to “Statement of profit or loss and other comprehensive income” when referred to in IFRS and its other publications. Do you agree? Why or why not? What alternative do you propose?

As discussed further in our response to Question 2, we do not support a requirement for a single statement. We support a requirement for two statements: (i) a statement of profit and loss (“P&L”) and (ii) a statement of other comprehensive income (“OCI”) that reconciles P&L to comprehensive income. These statements should be presented consecutively in the financial statements.

Question 2

The proposals would require entities to present a statement of profit or loss and other comprehensive income with two sections – profit or loss and items of other comprehensive income. The Board believes this will provide more consistency in presentation and make financial statements more comparable. Do you agree? Why or why not? What alternatives do you propose?

We do not support a requirement to use a single statement that incorporates both P&L and OCI (the “proposed statement”). P&L is a significant metric of performance that would be

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undermined by including it as a section within a larger statement. The fact that a per share amount is calculated for P&L but not for comprehensive income is indicative of the importance of P&L and the distinction between it and OCI. We believe that there is a fundamental difference between the items classified in P&L and OCI; items in OCI are typically more judgmental and often relate to unrealized gains and losses.

We do support the objective of the proposal to increase transparency, consistency and comparability; however, we believe that would be accomplished by requiring two separate statements (one for P&L and the other for OCI) rather than providing the current options under IAS 1. Greater convergence with US GAAP would be achieved by eliminating the US GAAP option to present items of OCI in the equity section. To address concerns that OCI is not given equal prominence, it should be required that the separate statements of P&L and OCI be presented consecutively.

For many reporting entities, it may not be possible from a practical stand point to present a combined statement on a single page of a set of financial statements, as is the case in the illustrative financial statements provided in the exposure draft. The Board currently has on its agenda a project on financial statement presentation. The staff draft of an exposure draft of a proposed IFRS on that topic would require that the financial statements be divided into sections, categories, subcategories, functions and natures. When the proposed requirements in the staff draft are overlaid on the proposed statement in the exposure draft, the resulting presentation is almost certain to confuse and bewilder the reader of the financial statements. Rather than giving OCI the same prominence as P&L, it is likely to further obfuscate such results. The future addition of new items to OCI will only exacerbate the confusion.

The proposed statement retains the proposal for a single statement contained in the discussion paper, Preliminary Views on Financial Statement Presentation released in October 2008 (the "discussion paper"). The basis for conclusions in the ED states that there was overwhelming support from users of financial statements commenting on the discussion paper for presenting P&L and OCI in the same statement. While this may be the case, it appears that at least some commentators' support for a single statement is driven by a broader belief that the number of items classified in OCI should be reduced or that OCI should be eliminated in its entirety – which is not the basis on which the proposal is being put forward by the Board. We support the development of a conceptual basis for determining which items should be included in OCI. However, the fact that such a basis has not yet been established should not result in the merging of P&L and OCI into one statement.

The discussion paper stated that the use of a single statement is consistent with evidence in several research studies that users appear to react more to OCI information that is presented in the location in which they expect to see it. The discussion paper concluded that if all entities presented OCI information in the same statement, users' ability to attend



consistently to the information should be enhanced. However, the discussion paper's conclusion does not necessarily follow from the evidence put forward as it assumes that users expect to see OCI in a single statement with P&L. We question whether the studies referenced unequivocally support the use of a single statement. The most recent study cited in the discussion paper contradicts such a conclusion as it found that OCI is priced by investors when it is reported in the most predominant location under U.S. GAAP: the statement of changes in equity. The study found only limited evidence of the expected pricing of OCI when reported in the statement of financial performance.

Question 3

The exposure draft proposes to require entities to present items of other comprehensive income (OCI) that will be reclassified to profit or loss (recycled) in subsequent periods upon derecognition separately from items of OCI that will not be reclassified to profit or loss. Do you support this approach? Why or why not? What alternative do you propose, and why?

Yes. We support the proposed approach to present separately items of OCI that would and would not be recycled through P&L. We believe that it would assist readers of the financial statements by providing an understanding of the ultimate disposition of an item, which may be important to a number of users in making decisions about the quality of earnings. However, we do have concerns that some items may not clearly fall into either category. For example, translation adjustments related to foreign operations would only be recycled through profit and loss if those operations were disposed of. We recommend that the IASB consider whether such items should be separately identified.

Question 4

The exposure draft also proposes to require that income tax on items presented in OCI should be allocated between items that might be subsequently reclassified to profit or loss and those that will not be reclassified subsequently to profit or loss, if the items in OCI are presented before tax. Do you support this proposal? Why or why not? What alternative do you propose and why?

No. We do not believe it is necessary to bifurcate on the face of the proposed statement the income tax effect between items which will and will not be recycled. Such a bifurcation could be made within the footnote disclosures, which currently require the tax effect of each item to be disclosed. Adding additional requirements to the face of the financial statements reduces the flexibility of the reporting entity to present such statements in a readable manner.

Question 5

In the Board's assessment:

- (a) **the main benefits of the proposal are:**
- (i) **presenting all non-owner changes in equity in the same statement.**
 - (ii) **improving comparability by eliminating options currently in IAS 1.**
 - (iii) **maintaining a clear distinction between profit or loss and items of OCI.**
 - (iv) **improving clarity of items presented in OCI by requiring them to be classified into items that might be reclassified subsequently to profit or loss and items that will not be reclassified subsequently to profit or loss.**
- (b) **the costs of the proposals should be minimal because in applying the existing version of IAS 1, entities must have all the information required to apply the proposed amendments.**

Do you agree with the Board's assessment? Why or why not?

As discussed above, we agree that (i) eliminating the current options for the presentation of P&L and OCI and (ii) bifurcating items in OCI between those that will and will not be recycled does represent an improvement to financial reporting, assuming that items such as translation adjustments are separately identified. We do not believe presenting a single statement represents an improvement over existing standards because it does not provide a clear distinction between P&L and OCI. We believe separate statements should be required. We agree that the cost of the proposals are minimal; however, alternative presentations present no difference in implementation costs. The Board should focus on avoiding overly prescriptive guidance that reduces a reporting entities judgment in presenting the face of its financial statements in a readable manner.

Question 6

Do you have any other comments on the proposals?

As noted above, the Board currently has on its agenda a project on financial statement presentation. Based on the staff draft, the contemplated changes to the presentation of financial statements are extensive and will require reporting entities to undertake a substantial redesign of their financial statements and related notes. We do not believe that it is advisable to separately address the presentation of OCI when the proposed changes to the broader financial statements would likely require incremental changes to the statement of comprehensive income beyond those contemplated in the exposure draft. In addition, constituents should be afforded the opportunity to comment on the proposed changes to the

statement of comprehensive income as part of the broader exposure draft on financial statement presentation so that comments will be informed based on the overall proposal for financial statement presentation. The basis for conclusions states that the exposure draft is presented separately from the main proposals on financial statement presentation mainly to align more closely the effective date of these amendments with those of the proposed amendments to IAS 19 *Employee Benefits* and IFRS 9 *Financial Instruments*. While we appreciate that the proposed changes to IAS 19 and IFRS 9 will add additional items to OCI, we do not believe this is a compelling reason to implement the revisions to the presentation of OCI in advance of the overall proposed changes to the financial statements.

Yours sincerely



Rita Liu
Secretary