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20 August 2010

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

Our Ref: LD/CC/103-10

Mr. Steve Ong
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37/F., Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Dear Steve,

**IAASB Exposure Draft on Presentation of Items of Other Comprehensive Income (Proposed amendments to IAS 1) ("Exposure Draft")**

I refer to your letter to our Mr. Mark Dickens dated 8 June 2010 on the above which has been passed to me for my attention.

We have completed our review of the Exposure Draft and our views are set out below.

<u>General</u>

The Exposure Draft proposes that entities should present "profit or loss" and "other comprehensive income ("OCI")" items in separate sections of a continuous single statement, namely, "a statement of profit or loss and other comprehensive income". It is proposed that items included in the "other comprehensive income" section will be required to be grouped on the basis of whether they will be "recycled" into the "profit or loss" section of the income statement.

Although we understand the intention of the Exposure Draft is to improve consistency of presentation in a single statement, we generally do not support the proposals since the fundamental conceptual basis and purpose of separating "other comprehensive income" items from "profit or loss" items is not clear.

<u>Fundamental conceptual issue</u>

The fundamental conceptual issues that arise from the Exposure Draft are:-

(a) how should financial performance be measured and should all gains/losses that relate to financial performance be recognised in "profit or loss"?



香港交易及結算所有限公司
Hong Kong Exchanges and Clearing Limited
香港中環港景街一號國際金融中心一期12樓
12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
電話 Tel: +852 2522 1122 傳真 Fax: +852 2295 3106 網址 Website: www.hkex.com.hk 電郵 E-mail: info@hkex.com.hk

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(b) why and what type of gains/losses should be included in "profit or loss" vis-a-vis "other comprehensive income"?

(c) what is the purpose of labeling certain items under "other comprehensive income" given that both "other comprehensive income" and "profit or loss" items result in a change in the net equity of an enterprise?

(d) what is the basic principle that supports "recycling" from "other comprehensive income" to "profit or loss"?

In addition, a related fundamental conceptual question that needs to be clarified is why and what items should be accounted for directly in the "statement of changes in equity" and how will the "statement of changes in equity" be linked to the proposed single "statement of profit and loss and other comprehensive income".

Paragraph BC25 on page 22 of the Exposure Draft states that:-

> *"With more items presented in OCI as a result of decisions that have been made in other projects, the Board thinks it is necessary to make the presentation of OCI clearer to enable users to have a better understanding of the effect of OCI items on the financial performance of an entity."*

Paragraph BC25 indicates that OCI has a link to the financial performance of an entity and therefore raises the question of what do the "profit or loss" and "OCI" sections purport to measure and what are they intended to convey to readers of financial statements. Because this is unclear, we recommend that the IASB should clearly explain what is meant by "financial performance" and whether is it the same as "profit or loss". The Exposure Draft raises Conceptual Framework issues of the distinction made between "profit or loss" and "other comprehensive income" and we believe this should be resolved before a change is made to IAS 1.

There is no apparent clear principle that drives classification and therefore we believe the current proposed amendments would not improve the ability of users to understand financial statements but may lead to added confusion. To illustrate, paragraph 82A on page 11 of the Exposure Draft states that:-

> *"As a minimum, the other comprehensive income section shall include line items that present the following amounts for the periods:*
>
> *(a) items of other comprehensive income grouped into those that, in accordance with other IFRSs:*
>
> *(i) will be reclassified subsequently to profit or loss when specific conditions are met, and*

*(ii) will not be reclassified subsequently to profit or loss.*

*(b) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and*

*(c) total other comprehensive income."*

We believe such disclosures may in fact lead to more questions and will confuse readers. The Exposure Draft also does not explain the principle of why recycling of items is sometimes appropriate and there are no disclosure required in this regard. In addition, it is possible that there may be items that are included in the share of profits attributable to associates and joint ventures accounted for under the equity method which are subject to recycling and is unclear whether these would be required to be disclosed under paragraph 82A(b).

In summary, we do not believe the proposals will produce substantial benefits and would recommend that the IASB revisit the fundamental conceptual issues referred to above including the principles behind recycling.

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 – Head of Listing