



Our Ref.: C/FRSC

Sent electronically through email commentletters@ifrs.org

21 October 2011

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

Dear Sirs,

[IASB Exposure Draft of Proposed Improvements to IFRSs \(Fourth Set\)](#)

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 welcome the opportunity to provide you with our comments on the captioned Exposure Draft. Our responses to the questions raised in your Exposure Draft are set out in the Appendix for your consideration.

We generally agree that the proposed amendments are appropriate matters to be addressed in the Annual Improvements Project and are in overall agreement with the intentions of the proposed amendments. However, we consider additional clarification would be required for some of the proposed amendments. In particular we note that the amendments to IAS 1 *Presentation of Financial Statement – Clarification of requirements for comparative information* introduce a number of terms (for example, "comparative information" and "required comparative period") for which a definition is not provided. This could create inconsistencies in application and may have unintended consequences. We believe that the use of clearly defined terms will contribute to the clarity of the scope and effect of the proposed amendments.

Our detailed comments on the Exposure Draft are set out in the appendix to this letter.

If you have any questions on our comments, please do not hesitate to contact me at ong@hki CPA.org.hk.

Yours faithfully,

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/WC/jn

Encl.

Comments on the IASB Exposure Draft of *Proposed Improvements to IFRSs* (Fourth Set)

Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We set out below our responses to those proposed amendments which we have particular concerns or suggestions.

(a) IFRS 1 *First-time Adoption of IFRS* – Repeated application of IFRS 1

We agree that an entity should apply IFRS 1 again in the circumstance described in proposed paragraph BC 1 (i.e. when an entity moves from national GAAP to IFRSs for a second time).

However, we are concerned that the proposed amendment, as currently drafted, would require application of IFRS 1 in a variety of circumstances, some of which may not be appropriate or necessary. Proposed paragraph 2A states: "An entity shall apply this IFRS when the entity's most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs."

For example, this could be argued to be the case when an entity has departed from a particular IFRS in accounting for a particular transaction in the previous year which has been disclosed in the financial statements (and might have led to a qualified auditors report). The previous annual financial statements of the entity, therefore, do not contain an explicit and unreserved statement of compliance with IFRSs.

To avoid any unintended consequences arising from unclear drafting (e.g. inconsistencies between the Basis for Conclusions and the actual wording of the amendments), we believe that the proposed amendment should be revised so that it is consistent with the scenario described in proposed paragraph BC1.

We propose that the Board should make amendments to proposed paragraph 2A to avoid any unintended consequences described above.

(b) IFRS 1 *First-time Adoption of IFRS* – Borrowing costs relating to qualifying assets for which the commencement date for capitalization is before the transition date

We agree with the proposed amendments as explained in proposed paragraphs BC5 – 6.

However, we found the drafting in the proposed amendments unclear. On the one hand, the proposed paragraph D23 makes reference to the transitional provisions set out in paragraph 27 of IAS 23. Paragraph 27 of IAS 23 states that, when the application of IAS 23 constitutes a change in accounting policy, an entity should

apply IAS 23 to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the effective date. The reference to paragraph 27 could be read in a way that a first time IFRS adopter should continue to apply the previous GAAP in relation to those borrowing costs for which the commencement date for capitalisation is before the date of transition to IFRSs. On the other hand, the proposed paragraph D23(b) states that a first-time IFRS adopter should account for borrowing costs incurred on or after the date of transition to IFRSs, including those incurred on or after that date on qualified assets already under construction.

We believe that the Board should make it clear in the final amendments as to what is intended. Particularly, the Board should address the above-mentioned potential inconsistency.

In addition, the proposed additions in paragraph D23 states: "An entity electing to apply this exemption can choose to apply the requirements in IAS 23 from an earlier date as permitted by paragraph 28 of IAS 23. From the date on which an entity applying this exemption applies IAS 23, it: (a) shall not restate ... ; and (b) shall account for borrowing costs ..." (Emphasis underlined).

The drafting is not clear to us as to whether the proposed paragraphs D23(a) and (b) are only applicable to a situation in which an entity chooses to apply the requirements from an earlier date as permitted under paragraph 28 of IAS 23. Based on paragraphs BC 5 – 6, it appears that the proposed paragraphs D23(a) and (b) can also be applied to a situation in which the requirements in IAS 23 are applied since the date of transition to IFRSs. We believe that the Board should address this potential inconsistency so that the final amendment is consistent with its basis for conclusions.

(c) IAS 1 Presentation of Financial Statement – Clarification of requirements for comparative information

We have a number of comments relating to the proposed amendments to IAS 1 as follows:

(i) Comparative information in respect of the previous period

We welcome the Board's intention to clarify that comparative information in respect of the previous period forms part of a complete set of financial statements. However, we have the following concerns with regards to the proposal:

- We note that paragraph 10 of IAS 1 states that comparative information in respect of the previous period forms part of a complete set of financial statements, and that paragraph 38 of IAS 1 states that an entity should present comparative information in respect of the required comparative period, except when IFRSs permit or require otherwise. We also note that proposed paragraph 38A states that an entity should present, as a minimum, two statements of financial position, two statements of comprehensive income, two statements of cash flows and two statements of changes in equity, and related notes. However, there is no clear definition as to what constitute "the required comparative period". A number of constituents in our jurisdiction have requested the Board to provide a clear definition as to what the required

comparative period is and related guidance on this area. For example, they would like the Board to clarify the following situations, as guidance in the final amendments:

- Situation 1: *An entity presents an additional primary statement in respect of the previous periods in accordance with the local regulatory requirements.* For example, an entity is preparing its financial statements in accordance with IFRSs for year ending 31 December 2011. The local jurisdiction requires the entity to present a statement of comprehensive income and a statement of cash flows for the year ended 31 December 2009 in addition to the two statements for the year ending 31 December 2011 and for the year ended 31 December 2010. In such a scenario, it would be helpful to clarify whether the additional statement of comprehensive income and statement of cash flows constitute "comparative information in respect of the previous period" in applying the requirements of IAS 1. If it does, a question has been raised as to whether a fourth statement of financial position (i.e. a statement of financial position as at 1 January 2009) is required if there is a retrospective restatement of items in the financial statements.
- Situation 2: *An entity changes its financial year end date.* For example, an entity previously adopted 31 December as its year end date and now changes its year end date to September in 2011, it is not clear from the proposed amendments as to what the comparative period is – should it be as previously presented, or follow a comparable period to that of the current period?

Should the Board define comparative information in respect of the previous period, we suggest the Board make reference to paragraph 20 of HKAS 34 that clearly defines what the comparative information is. In addition, the Board should consider including the definition in the "definitions" section of IAS 1.

(ii) Inconsistent requirements set out in proposed paragraphs 38B and 40C

We consider that there are inconsistent requirements between the proposed paragraphs 38B and 40C. The proposed paragraph 38B requires that related notes are required for any voluntary presentation of an additional comparative statement while the proposed paragraph 40C states that an entity is not required to present related notes to the opening statement of financial position if it makes a retrospective restatement or reclassification. Conceptually, it is difficult to understand why there is a difference.

We are of the view that an entity need not present related notes to the additional comparative information when it prepares an additional comparative statement for a period that does not constitute part of a complete set of financial statements. This will achieve consistency between the proposed paragraphs 38B and 40C.

(iii) When an entity needs to present an additional statement of financial position (paragraph 40A)

Paragraph 40A requires that an entity should present an additional statement of financial position as at the beginning of the required comparative period if it restates or reclassifies items in its financial statements. We would like the Board to provide guidance as to those types of situations when a reclassification of items in the financial statements would trigger the presentation of the additional statement of financial statements. For example:

- Does a reclassification of items in the primary statement of comprehensive income (e.g. an item being reclassified from "distribution expenses" to "administrative expenses) and in the primary statement of cash flows (e.g. an item being reclassified from "cash flows from operating activities" to "cash flows from investing activities") trigger the presentation of additional statement of financial position?
- Does a reclassification of items in a particular note to the financial statements (e.g. items are re-presented in segment reporting note or other receivables note) trigger the presentation of an additional statement of financial statement?

In the above examples, we are of the view that the presentation of an additional statement of financial position does not provide users with any useful additional information, and hence we do not believe that the additional statement of financial position should be required. We suggest that the Board should only require an additional statement of financial position when an entity reclassifies items in the statement of financial position.

(d) IAS 1 Presentation of Financial Statement – Changes to reflect the updated conceptual framework

We note that one of the amendments to IAS 1 is intended to align it with changes made to the Conceptual Framework which has been amended to deal with the new objective of "financial reporting" which supersedes the objective of "financial statements". We believe that "financial reporting" is much wider in scope than "financial statements" as "financial reporting" could include other financial reporting matters. We recommend that the IASB provide an explanation in paragraph 9A that financial statements are one part of general purpose financial reports and modify the start of paragraph 9B to indicate that financial statements are only part of the solution e.g. to reword it as follows: "Consistent with the objective of general purpose financial reporting, financial statements provide information about an entity's".

(e) IAS 16 Property, Plant and Equipment – Classification of servicing equipment

We agree with the proposed amendments to IAS 16.

However, we believe that the Board should remove the word "major" from paragraph 8 of IAS 16. The use of the word "major" seems to suggest that spare parts that are less expensive would not qualify as property, plant and equipment despite the fact that the items would be used for more than one annual accounting period. Such a view is not consistent with our understanding of the principles

underlying in paragraph 8 of IAS 16 - spare parts, stand-by equipment and servicing equipment qualify as property, plant and equipment when an entity expects to use them during more than one annual accounting period. Therefore, we believe that the word "major" is not necessary and suggest the Board to remove it.

We also believe that the phrase "during more than one period" as set out in paragraph 8 should be replaced by "during more than one annual accounting period".

Moreover, we note that the Board proposes retrospective application regarding the proposed amendments. This would appear to be on the basis that the amendments are merely a clarification. We believe that the Board should contact the relevant constituents (e.g. those that have proposed these amendments) to determine whether there is any practical difficulty in applying the amendments retrospectively, and if so, consider whether transitional provisions are necessary.

(f) IAS 34 Interim Financial Reporting – Interim financial reporting and segment information for total assets

We note that the proposed paragraph 52 requires prospective application, which is not consistent with paragraph 29 of IFRS 8. Also, we believe that the Board should make it clear in the final amendments that comparative information is required to be disclosed in the circumstance described in the amendments to paragraph 16A(g)(iv).

Question 2

Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the proposed transition provisions and effective date of all the proposed amendments except for those relating to IAS 16 and IAS 34 (please see our response to Question 1).

~ End ~