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By e-mail CommentLetters@iasb.org and by post

29 November 2006

Ms. Li Li Lian
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30 Cannon Street
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Dear Ms. Lian,

IASB Discussion Paper Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information

The Hong Kong Institute of CPAs 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 Discussion Paper.

We support this joint project of the IASB and the FASB to update their existing separate frameworks and develop a common conceptual framework for financial reporting. We believe that it will improve the foundation and concepts that underlie global financial reporting and serve as a more effective guide in developing global financial reporting standards.

Our comments on the Discussion Paper are set out in the appendix for your consideration. We note that the Discussion Paper is the result of the first amongst a total of eight phases of the joint project. We have prepared our comments based on the information provided in the Discussion Paper. We may provide further comments on the issues discussed in this Discussion Paper as more information resulting from other phases is released at a later stage.

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

Yours sincerely,

Patricia McBride
Director, Standard Setting

PM/EC/al

Hong Kong Institute of CPAs**Comments on the IASB Discussion Paper*****Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*****General****Authoritative status of the framework (P2)**

We consider that the authoritative status of the conceptual framework should be high in the hierarchy of financial reporting pronouncements as is presently the case in IAS 1 *Presentation of Financial Statements*. Preparers should be required to consider the conceptual framework if no standard or interpretation specifically applies or deals with a similar or related issue. As noted in P3, a common goal of the IASB and the FASB (the Boards) is for their standards to be clearly based on consistent principles which must be grounded in fundamental concepts. Having the conceptual framework high up in the hierarchy sets a foundation for developing principles-based standards and achieving convergence in future standards of the Boards.

We therefore urge the Boards to accelerate, rather than defer as noted in P2, the consideration of how to accommodate any differences in the authoritative standing of the conceptual framework of the Boards given the importance of the conceptual framework.

Focus initially on business entities in the private sector (P8)

The Boards have decided to focus initially on business entities in the private sector. Once concepts for those entities are developed, the Boards will consider the applicability of those concepts to financial reporting by other entities, such as not-for-profit entities in the private sector and, in some jurisdictions, business entities in the public sector.

We welcome the Boards' plan to consider the applicability of those concepts to financial reporting by entities other than business entities in the private sector and consider the information needs of users of their financial statements. Some local constituents have expressed concerns about the usefulness of financial statements that are prepared based on the Hong Kong equivalents of IFRSs. Examples of their concerns include whether the financial information required by the financial reporting standards is relevant to their needs, is understandable or justifies the cost of providing and using the information. We are also concerned that the International Public Sector Accounting Standards Board (IPSASB) is considering developing its own conceptual framework. The development of global standards for similar transactions regardless of entity may well be delayed if the IASB/FASB and IPSASB conceptual frameworks diverge.

We would also ask the Boards to ensure that whilst their focus is limited to business entities in the private sectors, they recognise that users of financial reports may not be in the private sector. For example, governments and their agencies legitimately use private sector entity financial information for making resource allocation decisions or discharging their regulatory duties and therefore users and their needs should be viewed broadly.

Chapter 1: The objective of financial reporting

Information useful in assessing cash flow prospects (OB3-OB5)

Whilst we accept the importance of information useful in assessing cash flow prospects, we would be concerned if this develops into a short-term focus on cash flows. Many entities enter into transactions with no immediate impact on cash balances, such as an equity-asset swap. We would prefer that a term other than “cash” be developed to emphasise the broad nature of “cash flow prospects”. That is, we disagree with the last part of paragraph OB5 which implies that such clarity is unnecessary.

We are also conscious that the emphasis on cash flow prospects will potentially exclude information of interest to users of financial reports such as financial information on the achievement of corporate social policy objectives and some of the materials that could be included in management commentary. This information is important for investment decisions as well as from a social policy perspective. We recommend that the Boards take a perspective that is broader than might be interpreted under the term “cash flow prospects”.

Meeting the information needs of potential users of financial reports (OB6-OB9)

The conceptual framework is intended to apply to general purpose financial reporting that will meet the information needs of potential users of financial reports. The Discussion Paper makes little reference to the results of any studies which ask these intended users what their needs are and whether the information that is currently produced is appropriate for their needs. We recommend that information on this type of studies be collected to assist in developing a conceptual framework that can better suit the needs of intended users.

Entity perspective vs proprietary perspective (OB10, BC1.11-BC1.13)

The conceptual framework has adopted the entity perspective as the basic perspective underlying financial reporting. We consider that more information on the rationale behind the decision is needed as a thorough consideration is necessary, given that the perspective selected will have an impact on how transactions are recognised, especially where a transaction is with a shareholder and whether the shareholder is the controlling shareholder or a minority shareholder. It will also have an impact on the presentation of consolidated financial statements and how related party transactions or disclosures are dealt with.

Primary users of financial statements - investors and creditors (OB12)

The Discussion Paper identified investors and creditors (and their advisers) as the most prominent external groups who use the information provided by financial reporting and who generally lack the ability to prescribe all of the information they need. Do the Boards have evidence that information meeting the needs of investors and creditors will also meet the needs of other users of financial information?

Financial statements and financial reporting (OB16-OB17)

The Boards have concluded that the objective of financial reporting should be broad enough to encompass information that might eventually be provided by financial reporting outside financial statements. We generally concur with this conclusion. We note that consideration of specific issues concerning the boundaries of financial

reporting and distinctions between financial statements and other parts of financial reporting at an early stage is crucial in determining whether the conceptual framework can be widened to encompass all financial reporting.

We consider that the current work program should focus on the pressing need to address financial statements issues rather than the broad issues associated with financial reporting such as management commentary.

Stewardship (OB27-OB28)

The majority of business entities in the private sector are small or medium-sized unlisted entities where one of the primary users of financial statements – existing shareholders – are very interested in information that can help them to monitor the entity's operations and make decisions such as decisions about whether to replace or reappoint management. The information needs of shareholders of unlisted entities are different from shareholders or potential shareholders of listed entities in that resource allocation decisions such as to buy, sell or hold the entity's securities as envisaged in OB28 are significantly less frequently made, while decisions relating to protection of the entity's economic resources and enhancement of their efficient and profitable use are more frequently made.

We urge the Boards to consider further the significance of the concept of stewardship and reassess its ranking in financial reporting objectives.

Chapter 2: Qualitative characteristics of decision-useful financial reporting information

Faithful representation and reliability (QC16-34)

The Discussion Paper notes that neither Board's existing framework conveys the meaning of reliability clearly enough to avoid misunderstandings. The Boards concluded that faithful representation encompasses all of the qualities that the previous frameworks included as aspects of reliability and therefore has replaced reliability with faithful representation in the Discussion Paper.

We believe that in practice the term "reliability" is more familiar whereas the meaning of the term "faithful representation" is less apparent. If the problem faced by the Boards is a lack of a common notion of "reliability" amongst standard-setting bodies, the Boards should seek to expand and clarify the meaning of "reliability" as a qualitative characteristic, rather than remove or rename it.

True and fair view (BC2.46-BC2.49)

We note the Boards' conclusion that true and fair view is not a qualitative characteristic. Instead, a true and fair view should result from applying the qualitative characteristics. The Boards also observed that for financial reports to present a true and fair view is much the same as for a financial report to faithfully represent, which already is a qualitative characteristic. As the term "true and fair view" is fundamental to financial reporting in many jurisdictions, such as the UK, the Republic of Ireland, Australia and Hong Kong, we consider it essential that the conceptual framework should address in some form, as in paragraph 13 of IAS 1 *Presentation of Financial Statements*, that the application of financial reporting standards developed under the conceptual framework with additional disclosure when necessary is presumed to result in financial statements that achieve a fair presentation.

Going concern

Going concern, being one of the two underlying assumptions for the preparation of financial statements in the current IASB framework, is not addressed in the Discussion Paper. While the current focus on fair value accounting may reduce the importance of this concept, a discussion of where this concept stands in the new conceptual framework will help to determine whether the Boards' direction is appropriate.